Building the Canada We Want

Budget 2003

Overview

February 18, 2003

Canada

"This budget is about the society that Canadians value, the economy that Canadians need and the accountability that Canadians deserve."

Deputy Prime Minister
and Minister of Finance John Manley
2003 budget speech

Introduction

Thanks to the efforts and sacrifices of Canadians everywhere, Canada is enjoying the benefits of a thriving economy. Our nation led the G7 in growth last year and is expected to do the same in 2003.

Our resilient economic performance reflects strong economic fundamentals, which are underpinned by the Government's record of budgetary surpluses and a commitment to maintaining balanced budgets.

But this prosperity could be threatened by the uncertain global economic and political climate. Therefore, we will continue to exercise caution in our fiscal planning, restoring the full Contingency Reserve and economic prudence.

Budget 2003 recognizes the critical link between social and economic policy and how an integrated approach produces policies that benefit all Canadians.

It reflects this balanced approach to national finances in three ways:

- **building the society Canadians value** through investments in individual Canadians, their families and communities;
- **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- **building the accountability Canadians deserve** by making government more transparent and accountable.

Economic and Fiscal Prospects

Canada's economy has shown remarkable resilience in the face of two years of global weakness and uncertainty.

In 2001, it not only avoided recession, but also posted strong gains and, most importantly, outperformed the United States and many of our major trading partners.

Last year, Canada's economy created 560,000 new jobs. More than 60 per cent of these jobs were full-time and gains were seen in every region and among all age groups.

Looking ahead, based on the average of private sector forecasts, Canada's economy is forecast to grow by 3.2 per cent in 2003—the highest rate of growth in the G7. It is expected to increase to 3.5 per cent in 2004.

This outlook could be affected by a number of factors, including an uncertain economic recovery in the U.S. coupled with a possible international military conflict.

Canada has now posted five consecutive budget surpluses. Federal debt (accumulated deficit) has been reduced by $47.6 billion and federal debt-to-GDP declined to 46.5 per cent in 2001–02.

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This budget projects balanced budgets in 2002–03 and over the fiscal plan to 2004–05. These are backed up by the normal $3-billion Contingency Reserve and economic prudence.

Canada is the only G7 country expected to record a surplus in 2002 and 2003.

Building the Society Canadians Value

Health Care

No social policy is more cherished or more vital to the quality of life of all Canadians than our publicly funded health care system.

The 2003 Health Care Accord agreed to by the Prime Minister and Canada's first ministers earlier this month will improve access to the health care system, enhance accountability for how health dollars are spent and ensure the system is sustainable.

Budget 2003 commits $34.8 billion in increased federal funding over five years, including:

- a five-year, $16-billion Health Reform Fund to the provinces and territories to target primary health care, home care and catastrophic drug coverage;
- $9.5 billion in increased cash transfers to the provinces and territories;
- an immediate investment of $2.5 billion through a Canada Health and Social Transfer supplement to relieve existing pressures;
- $5.5 billion in health reform initiatives, including diagnostic/medical equipment and a six-week compassionate leave benefit under employment insurance; and
- $1.3 billion to support health programs for First Nations.

Families and Communities

Budget 2003 makes major investments in Canadian families and communities, including:

- $965 million annually in additional support through the National Child Benefit supplement of the Canada Child Tax Benefit (CCTB), bringing maximum benefits of $3,243 for the first child, $3,016 for the second and $3,020 for each additional child by 2007, more than double the level of support in 1996;
- $935 million over five years to assist provinces, territories and First Nations to provide greater access to quality child care and early learning opportunities;
- $50 million per year to create the Child Disability Benefit—a new $1,600 supplement to the CCTB for low- and modest-income families with disabled children;
- $135 million each year for 3 years to continue to combat homelessness in Canada's cities;
- $320 million over five years to enhance existing affordable housing agreements with the provinces and territories;
- $256 million over two years to extend the government's housing renovation program; and
- $3 billion in additional support for infrastructure development over the next ten years.

Canada's Role in the World

Budget 2003 recognizes the need to continue playing a positive role and commits significant new resources to security, the military and international aid. Among the highlights:

- an ongoing increase of $800 million for Canadian military capabilities plus an immediate allocation of $270 million to address urgent needs;
- reducing the Air Travellers Security Charge to $7 from $12 each way for domestic flights—a reduction of more than 40 per cent;
- an additional $75 million over the next two years for the Security Contingency Reserve, to enable the Government to help respond to unforeseen security needs, including border security; and
- $1.4 billion over this and the next two fiscal years to boost Canada's aid to poor countries—an increase of 8 per cent annually.

Building the Economy Canadians Need

Innovation and Skills

At the heart of the Government's agenda is achieving the highest possible standard of living and quality of life for all Canadians.

Budget 2003 invests $2 billion to create a more innovative Canada, including:

- $105 million annually to create the new Canada Graduate Scholarships program to provide financial support for 2,000 master's level and 2,000 PhD students at Canadian universities;

- $125 million annually, beginning in 2003–04, to increase the budgets of Canada's three research-granting councils;
- $225 million each year, beginning in 2003–04, to help fund the indirect costs of research at universities, colleges and research hospitals; and
- $500 million this year to the Canada Foundation for Innovation to improve buildings and other infrastructure in research hospitals.

Improving the Tax System

Budget 2003 builds on the Government's Five-Year Tax Reduction Plan with further improvements to the tax system and enhanced incentives for Canadians to save and invest, including:

- increasing annual assistance for children in low-income families through the Canada Child Tax Benefit to $10 billion by 2007;
- raising RRSP and RPP contribution limits to $18,000 over four years, and indexing these new limits;
- supporting small businesses and entrepreneurs through a number of tax changes, including a 50-per-cent increase in the small business deduction limit to $300,000 over four years;
- eliminating the federal capital tax over the next five years, with medium-sized businesses benefiting first; and
- improving the taxation of resource income in Canada by reducing the corporate tax rate of the sector to 21 per cent over the next five years while making changes to the tax structure of this key sector.

Sustainable Development

Canada's continued economic prosperity depends on a healthy environment. That's why Budget 2003 commits $3 billion to key environmental initiatives, including:

- providing $2 billion over five years to help implement the Government's Climate Change Plan for Canada, including measures to promote energy efficiency, renewable energy, sustainable transportation and new alternative fuels, where areas such as building retrofits, wind power, fuel cells and ethanol will be considered; and
- $1 billion for other environmental measures, including improving air quality, supporting the clean-up of contaminated sites, protecting species at risk and creating new national parks and marine conservation areas. This also includes $600 million over five years to upgrade water and sewer systems on First Nations reserves.

Building the Accountability Canadians Deserve

The Government is determined not only to manage taxpayers' dollars wisely, but also to be more accountable to taxpayers for how it manages their money. To achieve this goal, it will:

- reduce employment insurance premium rates to $1.98 from $2.10 for 2004;
- launch immediate consultations on a new regime for setting employment insurance contribution rates for 2005;
- make Government financial statements more comprehensive and transparent by presenting them on a full accrual basis of accounting;
- require departments and agencies to reallocate a total of $1 billion per year from their budgets, starting in 2003–04, to help fund the cost of new initiatives announced in this budget;
- launch an ongoing review of all non-statutory programs over a five-year cycle to ensure that they continue to be relevant, effective and affordable; and
- improve the accountability to Parliament of arm's-length foundations created by the Government.

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Building the Canada We Want

Budget 2003

Building the Accountability Canadians Deserve

February 18, 2003

Canada

> *"Canadians want to know what they are paying for, and they want to get what they are paying for."*
>
> Deputy Prime Minister
> and Minister of Finance John Manley
> 2003 budget speech

Improving Expenditure Management and Accountability

The federal government is committed to ensuring Canadians know where and how their tax dollars are being used, and that they are being spent wisely.

To that end, the Government is determined to improve the way it manages the tax dollars of Canadians by:

- systematically reviewing programs to make sure they're still answering the needs of Canadians;
- shifting resources from where they are less needed to higher-priority areas; and
- making government more transparent and accountable.

In short, the Government is committed both to managing taxpayers' dollars wisely and to giving Canadians the accountability they deserve.

Managing Tax Dollars Wisely

Reviewing Government Spending

There is more to sound fiscal management than avoiding deficits and reducing debt. The Government must also manage tax dollars responsibly while delivering cost-effective and efficient services.

That is why Budget 2003 announces that the Government will launch an ongoing review of all non-statutory programs to ensure they continue to be relevant, effective and affordable. Over a five-year cycle the Treasury Board will examine the programs of federal departments and agencies, guided by the following questions:

- Is the program still relevant to the needs of Canadians?
- Are the program's resources being used in the most efficient and effective way to deliver appropriate results?
- Is it necessary for the federal government to operate this program, or could it be transferred to other levels of government, or to the private or voluntary sector?
- Is there scope for considering more effective program structures and service delivery arrangements?
- Are department and agency management practices appropriate and of sufficient quality?

Reallocating Government Spending

Last October, the Government promised to reallocate funding from lower to higher priorities.

Budget 2003 delivers on this commitment by reallocating a total of $1 billion per year from existing spending, starting in 2003-04. The President of the Treasury Board will announce details of the reallocation by early May.

More Transparency and Accountability

Employment Insurance Rates

Budget 2003 sets the employment insurance (EI) employee premium rate for 2004 at $1.98 per $100 of insurable earnings, down from $2.10 in 2003.

This will be the tenth consecutive annual reduction in the rate, representing annual savings for employees and employers of $4.7 billion in 2004.

This budget also announces that the Government is beginning consultations with Canadians on a new transparent process for setting EI contribution rates for 2005 and beyond.

Air Travellers Security Charge Reduced

Budget 2003 follows up on the Government's commitment to review the Air Travellers Security Charge to ensure revenue from the charge remains in line with the cost of the enhanced air travel security system over the next five years.

As a result of that review, and reflecting the move to full accrual accounting in the budget, the charge will be reduced to $7 from $12 each way for domestic flights—a reduction of more than 40 per cent.

Greater Accountability of Health Transfers

To improve the transparency and accountability of federal support to provinces and territories, effective April 1, 2004, the Government will create a new Canada Health Transfer in support of health, and a new Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

The 2003 Health Accord sets out a new accountability framework that includes a commitment, facilitated by a new Health Council, to report regularly to Canadians.

Accountability of Foundations

The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. In combination with clarifying the policy principles underlying the use of foundations, these measures will ensure they continue effective use.

Examples of foundations created in recent years include the Canada Foundation for Innovation and Genome Canada.

More Comprehensive Government Accounting

To make its accounts more comprehensive and up to date, the Government is implementing full accrual accounting starting with the budget. This responds to the recommendations of the Auditor General of Canada.

More accurate and transparent accounting will improve the Government's ability to manage its liabilities and assets. In addition, Canadians will be in a better position to hold the Government to account for its management of their tax dollars.

- All tax revenue is accounted for in the fiscal year to which they relate rather than when they are received. As a result, the Government's books for each year will provide a more accurate and timely reflection of the year's economic developments.

- Full accrual accounting recognizes the depreciation of the Government's physical assets. This will lead to improved accounting of assets and encourage enhanced policies for maintaining those assets and better decisions about whether to buy, lease or sell buildings and equipment.
- There will be more complete recording of the Government's liabilities, such as the potential cost of environmental clean-ups and retirement benefits for veterans. This will encourage departments to develop better plans for managing them.

Improving Regulation and Investor Confidence

Good regulations are essential to the functioning of our economy and society. The Organisation for Economic Co-operation and Development (OECD) has recognized Canada's success in this area.

Budget 2003 includes measures aimed at further promoting a reliable marketplace and strengthening investor confidence. These include:

- up to $59 million over five years to create a coordinated national program to strengthen enforcement against serious securities and corporate fraud offences; and
- support for the redesign of Canada's regulatory approach to build a Canadian advantage.

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Building the Society Canadians Value

February 18, 2003

Canada

Improving Access—The 2003 Health Care Accord

The 2003 Health Care Accord agreed to by the Prime Minister and Canada's first ministers on February 5 will improve access to the health care system, enhance accountability for how health dollars are spent and ensure the system is sustainable. Budget 2003 confirms $34.8 billion *in increased federal funding over five years to meet the goals outlined in the Accord, including:*

- $8.5 billion *in increased cash transfers to the provinces and territories over the next five years;*
- *a five-year,* $16-billion *Health Reform Fund for provinces and territories to target primary health care, home care and catastrophic drug coverage;*
- *an immediate investment of* $2.5 billion *through a Canada Health and Social Transfer supplement to relieve existing pressures;*
- *a new Canada Health Transfer by April 1, 2004, to enhance transparency and accountability;*
- *a* $1.5-billion *Diagnostic/Medical Equipment Fund to improve access to publicly funded diagnostic services;*
- *an additional* $600 *million to accelerate the development of secure electronic patient records, which are vital to quality care and patient safety; and*
- $500 *million for research hospitals through the Canada Foundation for Innovation.*

The federal government is also investing in a number of other key areas:

- $1.6 billion *over five years to support direct Health Accord initiatives, including:*
  - *a six-week compassionate care leave benefit under employment insurance to care for a gravely ill or dying parent, child or spouse;*
  - *sales tax measures supporting health care reform;*
  - *national strategies for patient safety, technology assessment and immunization; and*
  - *funding for the Canadian Institute for Health Information and a national Health Council to support governance and enhanced accountability.*
- $1.4 billion *over five years for other reform initiatives, including:*
  - *health-related research and innovation;*
  - *pharmaceuticals management; and*
  - *human resources planning and services in official language minority communities; and*
- $1.3 billion *over five years to support health programs for First Nations.*

The Accord sets out a new accountability framework that includes clear objectives and a commitment to achieving goals based on comparable indicators of health system performance. Annual reporting to Canadians will be facilitated by a new Health Council made up of representatives of both orders of government, experts and the public. Their work will help Canadians assess health system performance and implementation of the Accord.

"With this budget, we are making long-term investments to help working families with children break through the welfare wall and take control of their future."

Deputy Prime Minister
and Minister Finance John Manley
2003 budget speech

Investing in Canadian Families and Their Communities

Families and communities are the foundation of our society. This budget will help build the society we value by investing in the needs of the most vulnerable, by supporting communities, by strengthening Aboriginal communities and by promoting Canadian culture.

Supporting Canadian Families

Budget 2003 makes long-term investments in support of families with children and persons with disabilities, including:

- increases in annual assistance for children in low-income families through the Canada Child Tax Benefit to $10 billion by 2007—benefits increasing to $3,243 for the first child, $3,016 for the second and $3,020 for each additional child, more than double the level of support in 1996;
- $900 million over five years to assist provinces and territories to increase access to quality child care and early learning opportunities, and $15 million over five years for similar programs for First Nations children, primarily on reserve;
- a new Child Disability Benefit of $1,600 for low- and modest-income Canadian families; and
- $80 million per year to improve tax assistance for persons with disabilities, beginning in 2004-05 and drawing on an evaluation of the disability tax credit and expert advice.

Supporting Communities

This budget makes investments to increase support for Canada's communities, including:

- $320 million over five years to enhance existing affordable housing agreements with the provinces and territories;
- $256 million over two years to extend the government's housing renovation program;
- a three-year extension of the Supporting Communities Partnership Initiative at $135 million per year to combat homelessness; and
- an additional $3 billion in infrastructure support over the next ten years, including $1 billion for municipal infrastructure.

Strengthening Aboriginal Communities

This budget makes strategic investments to strengthen Aboriginal communities and improve their economic opportunities, including:

- $600 million over five years to upgrade, maintain and monitor water and wastewater systems on First Nations reserves;
- $42 million over two years for the First Nations Policing Program;

- $17 million over two years to help better meet the needs of Aboriginal people living in urban centres;
- $72 million in the next two years to improve educational outcomes for Aboriginal people and ensure they are provided with training and employment opportunities on major projects;
- $172.5 million over 11 years to support the creation and operation of a new Aboriginal Languages and Cultures Centre under the stewardship of Aboriginal people; and
- $20 million over the next two years for Aboriginal Business Canada to expand its support for business development and entrepreneurship.

Promoting Canadian Culture and Values

The Government will invest in measures to strengthen and promote Canadian culture and values, including:

- $150 million over two years for the Canadian Television Fund to support the production of quality Canadian programming;
- $114.5 million in the next two years to launch a five-year action plan on official languages; and
- a contribution program of $10 million a year to promote private sector preservation of historic places.

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Budget 2003

Building the Economy Canadians Need

February 18, 2003

Canada

> *"These measures...have a clear goal. To support a climate that rewards hard work and entrepreneurship. That encourages innovation and stimulates economic growth. And that provides a secure future for all."*
>
> Deputy Prime Minister and Minister of Finance John Manley
> 2003 budget speech

Introduction

At the heart of the Government's agenda is the goal of achieving the highest possible standard of living and quality of life for all Canadians. Critical to that is building the economy we need that produces jobs and growth to support the society we value.

Canadians have been increasingly successful in recent years in creating a more productive, competitive and sustainable economy. The Canadian economy led the G7 in growth in 2002 and is forecast to do the same this year.

Budget 2003 introduces measures to build a Canadian advantage by:

- investing an additional $1.7 billion in 2002–03 and over the next two years, to further strengthen research and innovation in Canada;
- investing $285 million in 2002–03 and over the next two years, to improve skills and learning opportunities for Canadians;
- building on the Government's Five-Year Tax Reduction Plan, to improve the tax system and to enhance incentives to work, save and invest; and
- investing $3 billion to promote sustainable development and a healthier environment.

Strengthening Research and Innovation

Advanced research generates ideas that can be transformed into innovative products and services. The dividends of these investments are a stronger, more rapidly growing economy and a higher quality of life.

This budget invests in a more innovative, more competitive Canada by:

- increasing by $125 million per year funding for Canada's three federal research-granting councils, to support more world-class research;
- creating a new Canada Graduate Scholarships program to support 2,000 master's and 2,000 PhD students, helping to produce the research leaders of tomorrow;
- providing $225 million per year, beginning in 2003–04, to help fund the indirect costs associated with federally supported research at universities, colleges and research hospitals;
- investing an additional $500 million in the Canada Foundation for Innovation for state-of-the-art health research facilities, and $75 million in Genome Canada for health genomics;
- committing an additional $70 million over two years for the National Research Council of Canada, to strengthen the Industrial Research Assistance Program, support astronomy and establish new regional innovation centres; and
- providing an additional $190 million in equity to the Business Development Bank of Canada to provide additional venture capital financing for new and growing businesses, and $20 million over the next two years to Aboriginal Business Canada to expand its support for business development and entrepreneurship.

Supporting Skills and Learning

Advancements in skills and learning are vital to improved productivity, competitiveness and a better life for all Canadians.

Budget 2003 will help Canadians improve their skills and educational opportunities by:

- investing $41 million over the next two years to attract and facilitate the integration of skilled immigrants into the Canadian labour market;
- committing $60 million over two years to improve the Canada Student Loans Program, to put more money in the hands of students and better enable post-secondary graduates to manage their debt;
- putting aside $100 million for the establishment of a Canadian Learning Institute, to improve the quality of information available on our education and learning system; and
- providing $72 million in the next two years to improve educational outcomes for Aboriginal people and ensure they are provided with training and employment opportunities on major projects.

Improving the Tax System

This budget builds on the Government's five-year, $100-billion tax reduction plan to further improve the tax system, and enhances incentives to work, save and invest, by:

- increasing annual assistance for children in low-income families through the Canada Child Tax Benefit to $10 billion by 2007—benefits increasing to $3,243 for the first child, $3,016 for the second and $3,020 for each additional child, more than double the level of support in 1996;
- promoting savings by increasing RRSP and RPP limits to $18,000 over four years, and indexing these new limits;
- supporting entrepreneurs and small businesses through a number of tax changes, including an increase in the small business deduction limit to $300,000 from $200,000 over four years;
- strengthening investment in Canada by eliminating the federal capital tax over five years;
- improving the taxation of resource income in Canada by reducing the corporate tax rate of the sector to 21 per cent over the next five years while making changes to the tax structure of this key sector; and
- enhancing the Film or Video Production Services Tax Credit.

"Our growth must be sustainable as well as strong. That means we must deal effectively with the challenge of climate change to protect the natural legacy that we will leave for our children."

Deputy Prime Minister
and Minister of Finance John Manley
2003 budget speech

Advancing Sustainable Development

Budget 2003 supports the Government's climate change strategy as well as efforts to provide Canadians with cleaner air and water and more liveable cities.

It will do so by:

- providing $2 billion over five years to help implement the Government's Climate Change Plan for Canada, including measures to promote energy efficiency, renewable energy, sustainable transportation and new alternative fuels, where areas such as building retrofits, wind power, fuel cells and ethanol will be considered; and
- providing $1 billion for other environmental measures, including:
  - allocating $175 million over two years to address federal contaminated sites;
  - investing $40 million over two years to improve air quality across Canada;
  - allocating $75 million over the next two years to better assess and manage toxic substances;
  - committing $74 million over the next two years as part of a multi-year plan to establish 10 new national parks and five new national marine conservation areas;
  - providing $33 million over the next two years to protect Canada's species at risk and their critical habitat; and
  - providing $600 million over five years to upgrade, maintain and monitor water and wastewater systems on First Nations reserves.

Renewing Canadian Agriculture

In addition to difficult growing conditions, Canadian farmers must deal with increased international competition and rising demands for food safety and quality.

Budget 2003 fully provides for the $5.2-billion, six-year Agricultural Policy Framework announced in June 2002. In addition, Budget 2003 introduces several measures to support Canadian agriculture by:

- providing $220 million to cover a deficit this fiscal year in the Crop Reinsurance Fund;
- allocating $100 million to the Canadian Food Inspection Agency over the next two years;
- making a one-time investment of $113 million for infrastructure improvements at Canada's four veterinary colleges;
- investing $30 million over the next two years to the Canadian Grain Commission to allow it to maintain its level of service to farmers; and
- providing $20 million over the next two years to support venture capital investments by Farm Credit Canada in the agricultural sector.

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Building the Canada We Want

The Budget Speech 2003

The Honourable John Manley, P.C., M.P.
Deputy Prime Minister and Minister of Finance

February 18, 2003

Canada

Budget Speech

Department of Finance Canada
Ministère des Finances Canada

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Introduction

Thank you. I would like to extend my thanks to all those who have participated actively in preparing today's Budget. Most notably, I want to thank my colleagues, the Governor of the Reserve Bank, Parliamentary Secretary, Deputy and the Honourable Member for Eastern Shore and the members of the Standing Committee on Finance, for the time and effort they have given to the pre-Budget consultation process. I also express my gratitude to the Prime Minister for his support and confidence.

I am pleased and honoured to stand in this House today to present to the people of Canada the government's sixth consecutive balanced Budget, and I am able to do so from a fully inclusive Budget Lock-up. I would like to commend the Minister of Finance, the Honourable Member for Lakeside, formerly Minister of Finance, the Honourable Member for Lakeside, formerly Minister of Finance, for his service to our government and to our country. I would also like to recognize the Clerk of the Privy Council for keeping us focused on the fiscal. This is a remarkable Canadian achievement.

Mr. Speaker, as the country emerges from the deepest recession in a generation, I have travelled to every part of this country, and met with thousands of Canadians. They told me about their hopes for their country and their confidence in the future. They told me about their concerns for their families and their communities. They told me about their confidence in their ability to succeed in the face of global competition. They told me about their confidence in their ability to succeed in the face of global competition. They told me about their confidence in their ability to succeed in the face of global competition.

Now we should be encouraged by the fact that we are not alone in the world in this regard. Many countries around the world are facing similar challenges. We are not alone in this regard. We are not alone in this regard. We are not alone in this regard

Over these past 18 months Canadians have again been reminded of the dangers that confront us in this uncertain world. And in consulting with them, events beyond our borders frequently became the subject of discussion.

Mr. Speaker, there can surely be no greater responsibility for any government than to provide for the security and safety of its people. And this budget does so. It also delivers on our responsibility to provide global leadership in finding solutions to the problems which give rise to instability—the problems of hunger and disease, of exploitation and poverty. Today's budget also delivers security to Canadians in what we most value here at home—in the quality of our society and the strength of our economy.

Mr. Speaker, beyond these crucial investments in our future, Canadians expect accountability from their governments. They want respect for the investments that they make in us—of their tax dollars and their trust. I am therefore announcing today a new, rigorous, ongoing review of government spending.

In short, Mr. Speaker, this budget is about the society that Canadians value, the economy that Canadians need and the accountability that Canadians deserve.

Economic and Fiscal Outlook

Today ours is a confident Canada. We are a people who can compete and win on any field, and in any market. This country is moving forward. And we are doing so from a position of considerable strength. We are a true "Northern Tiger."

Canada's economic success can be translated into human terms by the most important measure of all: the 360,000 jobs that our economy created in 2002, the majority of these full-time. This marks the best yearly performance for us on record. Our interest rates are near 40-year lows, benefiting Canadian families and businesses alike. Our current account has been in surplus for almost three years running, driving down our foreign indebtedness. And imagine, Mr. Speaker, for the first time in our history, it is now below that of the United States.

The result is a Canadian economy that expanded by a solid 3.3 per cent in 2002—considerably faster than the 2.4 per cent recorded by the U.S. and faster than that of all other G7 countries. The average of private sector forecasts indicates a similar pace of expansion in Canada this year, and 3.3 per cent growth in 2004.

But, Mr. Speaker, as everyone in this House knows, we live in a very uncertain world. The economies of Europe and Japan remain subdued. Most significantly, the United States has had an uneven recovery to date. Furthermore, the possibility of armed conflict in Iraq has done much to heighten uncertainty about the prospects for more stable global growth in the near future.

Mr. Speaker, Canadians can take pride in our resilient performance during this time of economic unease, but we must also take care. We must continue to demonstrate vigilance in the face of global uncertainty. There will be no return to deficit in Canada. We are reducing our debt, already down more than $47 billion since 1997. And we will do more. We are implementing in full the $100-billion tax cut package that was introduced in 2000. And we will do even more than this. We will maintain our distinct economic and social advantages. And, above all, we will maintain the capacity to control our own destiny.

Keeping a balanced budget, cutting debt and getting the best value for money are a constant challenge and a constant imperative. These are the bedrock of our fiscal and economic strategy. They are also part of the plain reality that most Canadian families live in—it is certainly the one that I was raised in. And it must be the one that a responsible government acts in. Canadians remember well the sacrifices that were made to set our country on the right track in the mid-1990s. We will not turn back.

I am pleased to announce today that we will again balance our books this year. And we will have a balanced budget next year and beyond. And we will do this while continuing to set aside a $3-billion Contingency Reserve and maintaining economic prudence in the face of global uncertainty.

These fiscal projections are, as usual, based on the average of private sector economic forecasts. And responding to the recommendations of the Auditor General, they are also based, for the first time ever, on the full accrual standard of accounts. Under full accrual accounting, Canadians will have a more comprehensive and up-to-date picture of the Government's financial position. As a result, they will see greater transparency in the management of public monies in Canada.

Mr. Speaker, providing responsible economic stewardship is never a finished job. It is not simply a box that gets checked off, and then is forgotten. The budget measures that we announce today will continue to treat this country's resources with respect. They enhance our fiscal sovereignty and strengthen our economy, which allow us to reach higher, to find new solutions to enduring problems, to set new goals and ambitious targets, to take responsibility for building the Canada we want, for ourselves and for future generations.

Budget Plan 2003–04

Health Care for the 21st Century

In building the country we want, Canadians have told us that our public health care system is their number one priority. It is a profound reflection of our values—of the idea that Canada is a place where people can count on each other. It demonstrates our will to share risk and our commitment that access should depend on need, not the ability to pay. It is part of the Canadian advantage.

Canada's governments recently reached an agreement on health care renewal, an agreement that does more than respond to immediate cost pressures, one that sets out a firm commitment and a plan for change: a plan for timely access; for quality care and for the sustainability of this Canadian advantage; for reform of family and community care; for access to home care; for coverage of catastrophic drug costs; for reduced waiting times for diagnostic services; for innovation; and for real accountability to Canadians. I wish to congratulate the Minister of Health, without whom this historic plan for reform would not have been possible.

This budget sets out the financial tools to put that plan in motion. Federal support to health care will increase by $17.3 billion over the next three years and $34.8 billion over the next five. This includes:

- a $9.5-billion increase in transfers to provinces and territories over the next five years;
- a $2.5-billion immediate transfer to the provinces and territories to deal with existing pressures;
- $16.0 billion for a Health Reform Fund over the next five years, targeted to primary care, home care and catastrophic drug coverage; and
- a further $5.5-billion investment by the federal government to promote the health of Canadians, including diagnostic and medical equipment, health information technology and research hospitals.

But health reform is not simply about hospitals and treatment. That is why this budget also provides financing for environmental health, for sport and fitness, for prevention and immunization, and for health promotion and protection.

Mr. Speaker, we must also acknowledge the unacceptable gap in health status between Aboriginal and other Canadians. We must do more and we must do better. And we will. This budget therefore provides $1.3 billion over the next five years for measures that will help improve the health of Aboriginal Canadians; and an additional $600 million is being targeted to improving the quality of water and wastewater treatment on reserves.

Mr. Speaker, our renewed commitment to health care recognizes the individual contribution of Canadians in building a healthy and compassionate society. Those who are gravely ill and dying often want to be cared for in the place they know best, and by those they love best: in their own homes and by their own family. Too often family members must make difficult choices between work and being able to provide compassionate care. This budget expands the employment insurance program to allow compassionate care leave from work for those who must look after a gravely ill child, parent or spouse.

This budget recognizes the leadership of Canadians like Rick Hansen, whose achievements have inspired not only our country, but the world. The Rick Hansen Man In Motion Foundation provides hope for the 37,000 Canadians who suffer from spinal cord injury. I am pleased to announce a contribution by the Government of Canada to the funding of this foundation's important work.

Mr. Speaker, Canadians can count on this government's commitment to a sustainable and accountable system of publicly funded health care, one where Canadians are assured of a clear, long-term framework for growing federal investment in their health care. Our cash transfers to provinces were $15.5 billion in the year 2000. By 2010 they will have more than doubled to $31.5 billion. Canadians have the commitment they have asked for—and they will have results they deserve.

Families and Communities

Mr. Speaker, in addition to health, Canadians have told us that they want their governments to tackle the issues of poverty, homelessness and dependency. It is an affront to our values that, while most Canadians benefit from our economic advances, some still cannot find shelter or meet their basic needs.

Canada is a very prosperous country. But not all Canadians share in that prosperity. We may have tackled the fiscal deficit but we have not yet adequately addressed our social challenges. Canadians want to see more power in the hands of individuals to seize or, better, to create opportunity for themselves, to break the cycle of poverty and dependency. They want more power in the hands of communities to identify and solve problems and to share responsibility for building a better quality of life for their members.

In the last half of the 20th century we committed, as a national project, to confront poverty among the elderly. The challenge of this generation is to provide the same attention and the same focus to dealing with child poverty, and to ensure that all Canadian children have a good start in life.

We have already come a long way. In 1997, together with the provinces and territories, we established the National Child Benefit to lift children out of welfare and to make sure that their parents no longer faced the "welfare wall," afraid to work because they would lose their benefits and be unable to cover the basic needs of their children. The National Child Benefit, Mr. Speaker, is working. Since its introduction we have seen a reduction in welfare dependency, and we have seen a real reduction in child poverty. We must, however, do more—much more.

With this budget, we are making long-term investments to help working families with children break through the welfare wall and take control of their future. This budget puts in place a long-term investment plan to help low-income families. I am announcing a significant increase in the benefits to children living in poor families so that, by 2007, a first child will receive $3,243—more than 30-per-cent higher than today and more than double the level before 1997. For a poor family with two children under the age of 7, this will mean a $563 cheque every month. For low- and modest-income families raising a disabled child, I am also pleased to announce that we will supplement these benefits by a further $1,600 per year.

We must also provide Canadians with disabilities the tools they need to participate actively in Canadian society. Today I am announcing that we are renewing our funding commitment of $193 million per year to assist disabled persons in strengthening their prospects for employment. Mr. Speaker, no one understands better the challenges facing persons with disabilities than they, themselves, and the people who care for them. Our government will work directly with these groups through a new, independent advisory committee on disability issues. In total, this budget raises the level of tax assistance for persons with disabilities and special medical needs, and for those who care for them, to about $1.3 billion per year.

Mr. Speaker, families need more than income support. They need real choices. Parents, and particularly single parents, should have the option to accept a good job that will help them to build a better life for their children, and still have access to quality child care. Today, as a result of the work of the Minister of Human Resources Development, I am announcing a new federal investment of $935 million in child care over the next five years.

Mr. Speaker, no approach to poverty will be successful if we do not do more to address the issue of homelessness. There can be little dignity in living on the street or in substandard housing. And there can be little opportunity without an address. We must put more power in the hands of communities to tackle the diverse problems underlying homelessness. This budget extends our commitment to the Supporting Communities Partnership Initiative over the next three years. And this budget provides an additional investment of

$320 million over the next five years to increase the supply of affordable housing across Canada. By 2007 this will bring total federal expenditure in this area to $1 billion. We are also extending our housing renovation program by a further three years. I wish to acknowledge the excellent work of the Honourable Member for Mississauga West, whose dedication to these issues is unrelenting.

Mr. Speaker, this budget also provides new significant investments to help our Aboriginal communities build a better future for themselves and generations to come. Today's budget dedicates new resources to address their health and water quality. It addresses Aboriginal day care and education, as well as Aboriginal business development. We are also committing funds today for the Urban Aboriginal Strategy, for the First Nations Policing Program and for the preservation of native languages and culture.

Innovation and Learning

Mr. Speaker, our economic prosperity, our quality of life and our standard of living require Canada to be a world leader in innovation and learning and to be a magnet for talent and investment—the mark of a "Northern Tiger." The most precious commodity of today's economy is knowledge. We have invested heavily in access to post-secondary education and in excellence in university research. We believe that our future lies in providing young Canadians with the best education possible, with the best universities that produce the best knowledge and the best graduates, and with an education system that can compete with the best in the world.

We have connected all of Canada's schools and libraries to the Internet. We are now one of the most connected societies on earth. This government created the Millennium Scholarship Foundation to give young Canadians better access to post-secondary education. This government created the Canada Foundation for Innovation to modernize the infrastructure of our universities. Already it has awarded research grants to more than 2,400 projects, almost half of them in the health sciences. This government created the 2,000 Canada Research Chairs to ensure that our universities can attract and retain the best faculty.

We must now ensure that the best faculty and the best facilities are attracting and developing the best students. I want to thank the Minister of Industry, as well as the Member for Peterborough and our caucus committee on post-secondary education, for their excellent work in helping us to shape this agenda, and to take the next bold steps forward today.

We are increasing the budgets of the federal research granting councils by $125 million per year. We are making permanent a substantial federal contribution to the indirect costs of research. We are amending the Canada Student Loans Program. We are doing more to help students better manage their debt loads and we are now making protected persons in Canada, like convention refugees, eligible for student aid. We are increasing our investment in the Canada Foundation for Innovation by $500 million, specifically for the infrastructure needs of Canada's research hospitals. And I am pleased to announce that we are also extending new research funding to Genome Canada and the Atacama Large Millimetre Array astronomy project.

But most importantly, Mr. Speaker, I am proud to announce a bold new initiative to attract and support graduate students in Canadian universities. With this budget, the Government will create the Canada Graduate Scholarships. When fully in place, they will support 2,000 master's and 2,000 doctoral students every year, and support them at levels that make graduate programs in Canadian universities competitive with the best in the world. This new program will increase the number of graduate scholarships offered by the federal government by more than 70 per cent—to around 10,000 a year. And 60 per cent of the new scholarships will be in the humanities and social sciences.

Further, Mr. Speaker, I am announcing today a $12-million endowment for the National Aboriginal Achievement Foundation to expand its scholarships for Aboriginal students, and I want to commend its President, John Kim Bell, for his remarkable work. And we are today contributing $100 million towards the creation of the Canadian Learning Institute, which will help Canadians to make better decisions about the education of our children.

Mr. Speaker, Canada's distinct knowledge advantage is built by expanding the skills of our labour force and by helping every Canadian who wants to work, including new Canadians, to apply their talent and initiative to productive enterprise. And so we will invest $41 million over the next two years to help new Canadians to integrate quickly into our economy, whether it is second language skills, or faster recognition of foreign credentials, or pilot projects to attract skilled immigrants to smaller communities across the country. Our goal is clear: a new level of opportunity and potential to contribute for all Canadians, particularly young Canadians.

Increasing Our Prosperity

Mr. Speaker, knowledge and ability are transformed into opportunity and prosperity when a strong economy exists to support them. Enhancing the well-being of Canadians through higher living standards and a better quality of life lies at the heart of the Government's economic and social agenda. It requires that economic and social progress advance together, and that we capitalize on the dynamism, talent and initiative of the Canadian people. Our tax system must encourage economic growth and job creation, along with investment in new technologies and research.

Mr. Speaker, I have just spoken about our new investments in learning and skills development, in research and innovation, and in our families and communities.

Today we are also introducing measures to build on our five-year tax plan and to create new incentives for savings and investment. This budget encourages savings by Canadians by increasing registered retirement savings plan limits to $18,000 by 2006, and by making corresponding increases for employer-sponsored registered pension plans. With this measure, Canadians will be able to better plan for their retirement. They will be able to rely upon the sustainability and strength of all three pillars of Canada's retirement system: the Canada Pension Plan, Old Age Security and registered pension and retirement savings plans. I will also add that, as long advocated by the Honourable Member for Dufferin–Peel–Wellington–Grey, we are recognizing the unusual hazards faced by Canada's firefighters. And so to enhance their quality of life in retirement, we will accelerate their pension accrual rates.

Mr. Speaker, this budget goes even further in supporting entrepreneurs and small businesses in Canada. I am announcing today a long overdue change for small business owners. For two full decades, the maximum limit to which the 12-per-cent small business tax rate applies has stayed at $200,000. This budget raises that limit to $300,000.

Canadian employers and employees alike are benefiting from a steady reduction in employment insurance (EI) contribution rates. There have been nine reductions since 1994. Today I am announcing an even lower EI contribution rate in 2004 of $1.98—12 cents lower than the current rate.

Mr. Speaker, this government is committed to competitive business taxes to attract investment and support jobs and growth for Canadians. Today I am announcing several important new measures.

We know that capital taxes negatively influence the decisions of foreign and domestic investors in choosing whether to invest in Canada. This is a tax that hits businesses even when they have tough years. And this is a tax that hits growing businesses when they need capital to expand. In short, the capital tax is a significant impediment to new investment, and that hurts us all. Today we are adding to Canada's competitive advantage by legislating the elimination of the general federal capital tax over the next five years. Smaller, and in particular medium-sized firms, will be the first to benefit from this change. As of 2004, 25 per cent of the businesses currently subject to this tax, many Canadian-owned, will no longer be required to pay it.

We will also improve the taxation of resource income in Canada. We will reduce the corporate tax rate of this sector to 21 per cent over five years, while making changes to the tax structure of this key sector.

But our efforts to create and sustain a strong Canadian economy must go far beyond taxation measures. We have heard many good ideas from the Canadian Federation of Independent Business, from women entrepreneurs and other Canadian business innovators on how we can further support entrepreneurship and small business in Canada. And so this budget includes additional measures such as the extension of a further $190 million in equity to expand venture capital investment by the Business Development Bank of Canada. And we are providing a 25-per-cent increase to the highly successful Aboriginal Business Canada program.

Mr. Speaker, Canada's farmers are among the most productive agricultural producers in the world. But drought and pressure from unfair foreign trade practices have brought on tough times. This government is supporting our farmers, and today's budget confirms that $5.2 billion will flow to them over the next six years under the new Agricultural Policy Framework and its early bridge-funding arrangement. We are also advancing new funding to the federal Crop Reinsurance Fund and to key agencies like the Canadian Grain Commission and the Canadian Food Inspection Agency. And we have dedicated $113 million for Canada's veterinary colleges in Saskatoon, Charlottetown, Guelph and Saint-Hyacinthe. We will also extend $20 million over the next two years to increase venture capital investments by Farm Credit Canada in the agriculture sector.

Mr. Speaker, these measures and others contained in our budget plan have a clear goal. To support a climate that rewards hard work and entrepreneurship. That encourages innovation and stimulates economic growth. And that provides a secure future for all.

Climate Change and the Environment

Mr. Speaker, our growth must be sustainable as well as strong. That means we must deal effectively with the challenge of climate change to protect the natural legacy that we will leave for our children. Years into the future all of us want to be able to say to our children and grandchildren that we recognized what had to be done, and that we acted. I also want to be able to say that we faced up to our responsibility to show global leadership, as Canada has always done, and that we did our part to develop a plan with our partners to protect our atmosphere. That is why this House voted overwhelmingly to ratify the Kyoto Protocol, following on the tireless efforts of the Minister of the Environment and the Minister of Natural Resources. It is why so many Canadians, including many parliamentarians, have stepped forward to meet this challenge with new commitment and with new ideas.

Addressing climate change is a political responsibility and an ecological imperative, but it is also an economic opportunity for Canada. This country's capacity in knowledge and innovation will be key to how we meet this challenge. Canada is already one of the world's leaders in environmental technologies. But we can, and must, expand both our environmental and our economic advantage as we move forward on our Kyoto commitments.

That is why this government has already dedicated $1.7 billion to addressing climate change since 1997. And it is why, Mr. Speaker, we are dedicating another $2 billion in today's budget to help implement the Climate Change Plan for Canada. This includes $260 million for Sustainable Development Technology Canada to encourage the development of greenhouse gas reducing technologies. And it also includes $1.7 billion over five years to support partnership, innovation and targeted measures to promote energy efficiency, renewable energy, sustainable transportation and alternative energy sources. And we are today providing additional support for scientific study in an area where Canada alone can make a unique contribution in addressing global climate change—and that is in the science of the Far North.

Mr. Speaker, our environmental agenda extends beyond the challenge of climate change. As I said earlier, we will improve water quality and wastewater treatment on First Nations reserves, where the need is so great. This budget provides investments of more than $340 million over two years in other environmental priorities, like implementing a new Canada-U.S. agreement to improve air quality. We will also follow through on our commitment to protect species at risk, to address toxic substances and to clean up federal contaminated sites. We will also work with our provincial

and municipal partners on remediation of the Sydney tar ponds. I am very proud that this budget provides funding for the completion of Canada's national park system, including the creation of 10 new national parks and 5 new marine conservation areas.

Our Cities and Communities

Mr. Speaker, Canada's magnificent natural environment is inseparable from our sense of national identity. But Canadians also need to feel pride in the places that they know best: in the cities and communities where they live. Our cities must be places of dignity and of productive enterprise, and the focal points for both our culture and our competitiveness.

Virtually every initiative I have described today can be placed in the context of renewing urban and community life in Canada: the strengthening of health care; addressing child poverty; providing new opportunities to learn and to work for all Canadians, including new immigrants; enhancing our business climate and supporting a growing and environmentally sustainable economy.

But these advantages must be supported by an infrastructure that allows our economy to work and our society to prosper. An important study prepared by the Honourable Member from York West, as head of the Prime Minister's Task Force on Urban Issues, made clear that infrastructure renewal tops the list of challenges faced by Canada's cities and communities.

We have made some important investments to date in urban, border, highway and strategic infrastructure. The last two budgets announced investments totalling more than $5 billion, and which are leveraging additional resources from the private sector and other levels of government. Today we reaffirm our commitment to the renewal of Canada's infrastructure well into the future. I am announcing a further $5 billion federal investment over 10 years in strategic and municipal infrastructure.

Mr. Speaker, healthy communities and dynamic cities are central to quality of life for all Canadians. But beyond having a strong economy and a secure society, I believe that our concept of quality of life in Canada also means living with dignity and pride, and being able to celebrate our culture and our freedoms. Quite simply, Canada is a model for the world—a model of diversity and inclusiveness, a model of openness to people from all over the world, and a model of opportunity in what each person in this country may achieve.

Linguistic duality is at the heart of Canada's collective identity. Knowledge of another official language is a matter of both cultural and economic enrichment. It helps to open the door to a different vision of the world, and improve access to global markets and the opportunities they offer. Over the last quarter century, what Canada has achieved in the teaching, promotion and use of the second language is nothing less than remarkable. And with this budget—as a result of the work of the Minister of Intergovernmental Affairs—this government will move to a five-year action plan to renew its support for official languages in Canada. We are also today investing in measures to promote Canadian culture, including the preservation of our heritage properties, which the Minister of Canadian Heritage has supported so passionately.

[illegible]

Mr. Speaker, during my consultations on this budget, Canadians across the country told me that they wanted their government to be more accountable and transparent. Simply put, Canadians want to know what they are paying for, and they want to get what they are paying for. They want results. They want value for money. They know that every dollar counts, whether you are managing a household or a G-7 economy. Mr. Speaker, we have a responsibility to the people of Canada. That is why we are making accountability a cornerstone of this budget.

First, we are implementing our commitment to reallocate spending from lower to higher priority needs, and from less effective to more effective approaches. Under the leadership of the President of the Treasury Board, this government is launching an ongoing examination of federal programs, to be conducted on a five-year cycle. Our goal will be to ensure that government programs continue to be relevant, effective and affordable. All departments and non-statutory programs will be reviewed. They will be asked to demonstrate results and be challenged to find new approaches to service delivery. To demonstrate our commitment to reallocating spending and improving efficiency, beginning in 2005-06 the Government will reallocate an ongoing $1 billion per year from existing spending to fund higher priorities of Canadians.

Second, in consultation with parliamentarians, parliamentary committees and the Auditor General, the Government will identify opportunities to improve parliamentary reporting in order to better meet the needs of Parliament and the public.

Third, the Government is responding to the advice of Canada's Auditor General and, from this budget forward, is presenting its financial statements on a full accrual accounting basis.

Despite its apparent accountability and transparency, the Treasury Board still requires comprehensive reporting of all non-Crown Parliament and the public. Audit on a government wide and a departmental basis.

While we are increasing the accountability and governance arrangements of small hospital boards considerably, the Government.

Should I am today announcing the launch of consultation on a new employment insurance rate setting mechanism for 2005 and beyond to the Board on the principles of transparency and of balancing premium revenues with expected program costs.

Currently, government fees model accountability contributes of the new Accord on Health Care Renewal. This minister agreed the model to create a Health Council to report publicly to Canadians on the progress of health reform. And I am confirming today that the Government will together on and to the combined Canada Health and Social Transfer Effective April 1, 2004, a new Canada Health Transfer and a new and separate Canada Social Transfer will be created providing the accountability that Canadians want.

English, this budget will move our commitment to improve corporate governance, enforcement and regulation to strengthen confidence in Canadian markets.

And finally, honourable members will recall that the Air Travellers Security Charge was introduced as a direct means of funding new air security measures in Canada in the aftermath of the events of September 11, 2001. While the move to special accounting I am pleased to announce that the air travel industry contributed learning. Should I ' of this cost to will be reducing the charge on domestic flights by over 30 per cent effective to 'F' for a one-way flight, or $10 in a return ticket.

We Speaker the accountability measures announced in today's budget are about more than program effectiveness. They are about respect and the integrity of our democracy. And they are about Canadian values.

Increasing Canada's Role in an Uncertain World

We Speaker in my travels across Canada these last months I sometimes overwhelmed and especially the young people in the high schools and universities I visited about their passion about the role that this country plays in the world. They are proud that our Might Could celebrate it is now on the shoulder guard of a soldier, sailor, airman the help of a helicopter to transport an Aga of those experiences hope, compassion and determination everywhere that it is now. This has always been Canada's contribution and even within a world of so much change, this will always be so.

[illegible] government has made [illegible] commitment to double our international assistance by the year 2010. This goal is more than a pledge. It represents the tangible progress of a future America can be proud of. It represents [illegible] America's leadership in the campaign against [illegible] poverty. And it delivers another on our commitments to a New Partnership for Africa's Development. Africa is a place of hope and progress, and we will support it.

Above all, our commitment rests [illegible] the understanding that our common future is tied to those [illegible] who suffer the deadly [illegible] of poverty. We are fulfilling this commitment, and we are leaving room [illegible] to [illegible] international assistance. Assistance [illegible] ensuring an additional $[illegible] million this fiscal year. And we will continue increasing our international assistance until we reach our goal.

We [illegible] our conception of what constitutes poverty [illegible] the world [illegible]. We come [illegible] it is counted in consumption [illegible] many [illegible] it is not having food to eat each day. Today [illegible] our [illegible] international economy, and by [illegible] of our [illegible] we [illegible] [illegible]. Unless this [illegible] [illegible] [illegible]

Mr. Speaker, Canada's peacekeeping tradition is a proud one. Last week this House was informed by the Minister of National Defence that Canada has agreed to send security and peacekeeping forces to Afghanistan as part of the UN-mandated mission there. This is a dangerous and difficult commitment but, as always, the Canadian Forces will undertake their mission with the courage and professionalism for which they are known throughout the world. The increased resources I have just announced, along with the funds we have set aside for military contingencies, are expected to cover the incremental costs of this mission.

But, Mr. Speaker, if we as a nation are to summon the resolve to face our future challenges, we must never forget the courage and sacrifice of the past. And so this government has and will continue to pay tribute to Canada's veterans.

Conclusion

Mr. Speaker, I have spoken a lot today about the thousands of Canadians, from every region of our great land, whose voices were heard in the preparation of this budget. Canadians are confident about their place in the world and they are excited by their prospects. They spoke with passion about the nation they love—both the one we have today and the one that we can build. The Canada they want never loses sight of its commitment to the core values of fairness and opportunity that unite us.

Today we have taken serious steps forward in our quest to build the society that Canadians value, the economy Canadians need and the accountability Canadians deserve. That Canada is now within our reach. It is a matter of will, wisdom and work.

Let us seize this opportunity for the generations of today and tomorrow, for our challenge and privilege as parliamentarians is to work together—united in national purpose, living up to the trust confided in us by the people of this country, to work to build an even greater Canada, a Canada of economic excellence, fiscal responsibility and social equity. That is our task. That is the commitment we must—and we will—honour.

Building the Canada We Want

The Budget in Brief 2003

The Honourable John Manley, P.C., M.P.
Deputy Prime Minister and Minister of Finance

February 18, 2003

Canada

Budget in Brief

2003

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Budget 2003—Building the Canada We Want

Introduction

Now is a moment of great opportunity for Canada. Thanks to the efforts and sacrifices of Canadians everywhere, our economy is strong. Where once we followed the economic performance of other nations, particularly the United States, we now lead—in growth, in job creation, in debt reduction. Our nation led the Group of Seven (G7) in growth last year and is expected to do the same in 2003.

Our resilient economic performance reflects strong economic fundamentals, which are underpinned by the Government's record of budgetary surpluses and a commitment to maintaining balanced budgets.

But this prosperity could be threatened by the uncertain global climate. Therefore, we will continue to exercise caution in our fiscal planning, restoring the full Contingency Reserve and economic prudence.

Budget 2003 recognizes the critical link between social and economic policy and how an integrated approach produces policies that benefit all Canadians.

It reflects this balanced approach in three ways:

first, by building the society Canadians value—making investments in the needs of individual Canadians, their families and their communities, in areas such as health care, education and the environment;

second, by building the economy Canadians need—fiscally prudent, deficit-free and promoting the productivity, innovation, learning and creativity that helps Canada not just compete, but win; and

third, by building the accountability Canadians deserve—through the elimination of government waste and making government spending more efficient and transparent, so Canadians know where and how their tax dollars are being used.

In short, Canadians seek a society built on their commonly held values, an economy that maximizes opportunity for all, and a transparent accounting of government's efforts to achieve those goals. This is the challenge Canadians have brought to their government. Budget 2003 is the response to that challenge and opportunity:

- it fosters a successful economy—one that leads all G7 nations;
- it continues to deliver prudent management of the nation's finances, exemplified by this government's sixth consecutive balanced budget;
- it strengthens medicare with several measures, including an investment of $34.8 billion over five years, a commitment that supports the 2003 First Ministers' Accord on Health Care Renewal;
- it provides support for Canadians where the need is greatest—families, children, Canadians with disabilities, communities large and small, and our Aboriginal communities;
- it makes significant investments in research and development, support for learning and improvements to the tax system designed to enhance Canada's ability to compete;
- it invests $3 billion to promote sustainable development and a healthy environment;
- it delivers on the commitment of last fall's economic update to reallocate spending from lower to higher priorities;
- it takes steps to improve the accountability and transparency of government programs; and
- it provides additional funding for Canada's role on the international stage by increasing military funding and honouring our commitment to help the poorest countries in the world.

Economic Developments and Prospects

Over the past two years Canada's economy has demonstrated remarkable resilience in the face of global weakness and uncertainty.

In 2001 the Canadian economy outperformed that of the United States and avoided recession during the global economic downturn. This is in sharp contrast to the recessions of the early 1980s and early 1990s, when Canada suffered more severe downturns and recovered more slowly than the U.S.

Thanks to strong domestic demand, the Canadian economy continued to outperform the U.S. economy in 2002 in the face of an uneven global economic recovery. The strength of the Canadian economy was particularly evident in labour markets.

Canada's resilient performance reflects strong economic fundamentals, large tax cuts and an increasingly competitive business sector. Low inflation, combined with the Government's track record of budgetary surpluses and a commitment to maintaining balanced budgets, provided the Bank of Canada with the flexibility to respond to economic weakness in 2001 by reducing short-term interest rates to levels not seen in 40 years. This has helped to support domestic demand and household confidence. Budgetary surpluses and debt repayment are also freeing up funds in capital markets for business investment and reducing Canada's reliance on foreign saving.

Canada is forecast to lead the G-7 countries again in economic growth in 2003. However, the global economic outlook remains uncertain. In the face of a variety of global challenges, Canada will maintain the prudent approach to fiscal planning that has served the nation well in recent years.

Highlights

- Average economic growth in Canada in the first three quarters of 2002 was 4.4 per cent, the strongest among the G-7 countries. Strong domestic demand, especially consumer spending and residential investment, led Canadian growth as external demand remained uneven.
- During 2002 the economy created 360,000 jobs, more than 60 per cent of which were full-time. All age groups and all regions of the country benefited from the job gains.
- The solid performance of the Canadian economy at a time of global weakness reflects Canada's sound economic policies. Five consecutive budgetary surpluses, a sharp drop in public debt and large tax cuts supported confidence and domestic demand. This sound fiscal policy, together with low inflation, allowed the Bank of Canada to reduce short-term interest rates to their lowest level in more than 40 years, boosting consumer spending and confidence.
- Unlike the early 1990s and early 1980s, Canada outperformed the U.S. in both output and employment growth during the global slowdown in 2001 and the recovery last year. In contrast to Canada's strong job creation record in 2002, the U.S. economy lost 229,000 jobs. The employment rate in Canada is now about the same as the U.S. rate for the first time in 20 years.
- The global recovery is expected to continue but at a moderate pace. In particular, the U.S. near-term outlook is somewhat weaker than anticipated at the time of the October 2002 *Economic and Fiscal Update* and considerable downside risks remain for the global economy. The external risks include the ongoing impact of equity market declines on U.S. investor and consumer confidence, the geopolitical risks associated with the possibility of war in Iraq and a continuation of the disruption of Venezuelan oil production. If these risks materialize, global growth would be slower than expected and this would affect Canada.
- The Department of Finance survey of private sector economists in December 2002 indicates Canadian growth of 3.3 per cent in 2002 and 3.2 per cent in 2003. Growth is expected to rise to 3.5 per cent in 2004, consistent with the expectation that the U.S. economic recovery will gain momentum in the second half of this year and into next year.
- The Organisation for Economic Co-operation and Development (OECD) and International Monetary Fund predict that Canada will outperform all G-7 countries in growth in 2003.

Investing in Canada's Health Care System

Canada's publicly funded health care system plays a key role in building the society we value. It is vital to our quality of life and a reflection of the values we share as a nation. It is also at the leading edge where economic and social policies intersect. It provides Canada with the distinct economic advantage of a healthy, productive workforce and provides security in retirement.

The Romanow Commission on the Future of Health Care in Canada, the Kirby Senate Study on the State of the Health Care System in Canada and several recent provincial reports clearly indicated that Canadians want and expect improved access to quality services from our publicly funded health care system. Canadians from all parts of the country have said that modernizing medicare means providing better access to services such as primary care, diagnostic services, home care, palliative care and catastrophic drug coverage. In short, they want real, substantive reforms, along with increased transparency and accountability.

Canadians have asked that their governments work together to strengthen the health care system and ensure its long-term sustainability. The new *Accord on Health Care Renewal*, agreed to by Canada's first ministers on February 5, 2003, reflects a common commitment among governments to work together to improve access, enhance accountability for how health dollars are spent and the results achieved, and ensure that the system remains sustainable in the long term.

> "Canadians want a sustainable health care system that provides timely access to quality health services. They recognize that reform is essential, and they support new public investments targeted to achieve this goal."
>
> 2003 First Ministers' Accord on Health Care Renewal

The funds provided in this budget build on the significant investments in health care already made by the Government of Canada since the budget was balanced in 1997–98, including the September 2000 first ministers' agreement. This budget confirms increased health care funding of $34.8 billion over the next five years. The federal government is committed to ensuring that future generations of Canadians continue to have access to universal, quality care—care that is based on need, not on the ability to pay.

Highlights

This budget makes significant investments to address the concerns of Canadians about their health care system: waiting lists, availability of diagnostic equipment and accountability for their tax dollars. These federal investments, in conjunction with those of provincial and territorial partners, will help to improve access to the health care system for Canadians, enhance accountability for how health dollars are spent, and ensure the future sustainability of the system.

- The 2003 First Ministers' Accord on Health Care Renewal is a commitment designed to improve the accessibility, quality and sustainability of the public health care system and enhance transparency and accountability in health care spending.
- Federal support to health care will increase by $17.1 billion over the next three years and by $19.9 billion over the next five years. This includes:
  - $5.5 billion in transfers to provinces and territories over the next five years;
  - $2.3 billion in an immediate investment through a Canada Health and Social Transfer supplement to relieve existing pressures;
  - $16.0 billion over five years to provinces and territories for a Health Reform Fund targeted to primary health care, home care and catastrophic drug coverage;
  - $0.3 billion over five years in health initiatives, including diagnostic/medical equipment, health information technology, and the creation of a no-fault compassionate family care leave benefit under employment insurance; and
  - $1.1 billion over five years to support health programs for First Nations and Inuit.
- First ministers have also agreed to an enhanced accountability framework to report to Canadians on the progress of reform.
- The federal government is setting out a long-term funding framework to provide provinces and territories with predictable, growing and sustainable support for health care and other social programs.
- The federal government will create two new transfers on April 1, 2004: a Canada Health Transfer and a Canada Social Transfer to increase transparency and accountability.

Investing in Canadian Families and Their Communities

There is a fundamental relationship between economic success and quality of life. Only a strong economy can provide the jobs and income required to sustain families and their communities. Equally, the benefits to the economy of strong families and safe communities are self-evident. Like universal health care, providing for the needs of Canada's households and neighbourhoods remains Canadians' priority #1.

Strong families and communities also serve as vital role in building Canada's economy. By living the foundation on which successful lives are built, they help ensure that all Canadians are prepared for and capable of contributing to the economy. Just as investments in innovation and productivity strengthen the economy, investments in the areas of social policy help ensure the opportunities of that economy are available to all.

Budget 2003 makes further investments to help build the seven Canadians value. It enhances support for Canadian families with children and persons with disabilities. It helps communities create more affordable housing, fight homelessness and improve infrastructure. It enhances the economic and social opportunities for Aboriginal Canadians. And it strengthens and promotes Canadian culture and values. These investments increase and enhance opportunities for all Canadians—helping to build the stronger possible foundation for a solid, successful economy.

Highlights

Budget 2003 makes major investments to help Canadian families and communities, to improve opportunities for Aboriginal Canadians and to promote Canadian culture and values.

Supporting Canadian Families

This budget makes long-term investments in support of families with children and persons with disabilities, including:

- a $900 million per-year increase in the National Child Benefit supplement of the Canada Child Tax Benefit (CCTB) by 2007, on top of the investments announced earlier for a total child provided through the CCTB to $2,065. This will bring the estimated annual support delivered through the CCTB to over $10 billion in 2007, an increase of over 100 per cent since 1996;

- $931 million over the next five years to assist provinces and territories and First Nations in increasing access to quality child care and early learning opportunities, especially for low-income and single-parent families;
- $50 million per year for a new Child Disability Benefit for low- and modest-income families that will provide up to $1,600 annually for a child qualifying for the disability tax credit;
- $20 million per year to expand the list of eligible expenses for the medical expense tax credit; and
- $80 million per year to improve tax assistance for persons with disabilities, drawing on a forthcoming evaluation of the disability tax credit and the advice of a technical advisory committee.

Supporting Communities

To help communities, this budget makes significant investments to increase the supply of affordable housing, address homelessness and improve the state of Canada's infrastructure:

- $320 million over the next five years to enhance existing affordable housing agreements with the provinces and territories, bringing the total federal investment to $1 billion by the end of 2007–08;
- $256 million over the next two years to extend the Government's housing renovation programs to help preserve the existing stock of affordable housing;
- $270 million over the next two years to continue to fight homelessness; and
- an additional $1 billion in infrastructure support over the next ten years, including $1 billion for municipal infrastructure.

Strengthening Aboriginal Communities

Along with the initiatives to address health and other concerns on reserve and to improve economic opportunities for Aboriginal Canadians, this budget makes strategic investments to strengthen Aboriginal communities, including:

- $172.5 million over eleven years to support Aboriginal languages and culture, of which $18 million will be invested in the next two years;
- $42 million over the next two years to renew and expand the First Nations Policing Program; and
- $17 million over the next two years to work with partners to explore new ways to better meet the needs of Aboriginal people living in urban centres.

Promoting Canadian Culture and Values

The Government will invest in measures to strengthen and promote Canadian culture and values, including:

- $150 million over two years for the Canadian Television Fund to help the production of quality Canadian programming;
- $114.5 million in the next two years to launch a five-year action plan on official languages; and
- a contribution program of $10 million a year to provide a financial incentive to the private sector to preserve historic places.

Investing in a More Productive, Sustainable Economy

Enhancing the well-being of Canadians, through higher living standards and a better quality of life, lies at the heart of the Government's economic and social policies. Achieving high and sustainable living standards and a better quality of life requires that economic and social progress advance together. By undertaking the right investments and creating favourable conditions for growth, the Government can help provide the foundation for such progress.

Beyond a stable fiscal and monetary climate, the key drivers of a stronger economy are those that allow Canada to improve its productivity performance. These include such factors as a tax system that encourages economic growth and job creation, and investments in new technologies and research. Equally important is ensuring that Canadians have the skills and confidence needed to participate fully in the new economy. And the country's growth must be sustainable as well as strong. This means that the Government must deal effectively with climate change and other environmental challenges.

Canada has made great strides in recent years, eliminating the deficit and accelerating the growth in its standard of living. From 1997 to 2002 Canada's growth in gross domestic product (GDP) per capita, the best measure of living standards, rose faster than in any of the other leading industrialized countries, including the U.S.

This remarkable progress comes with a clear message: continued long-term, durable economic growth will require ongoing productivity improvements. Faster productivity growth means more income and better jobs for employees, and more opportunities for Canadians for personal growth and development. Canada's economic and social policies come together through investments in people, particularly in their health and their opportunities for learning.

The measures announced in this and previous budgets are designed to help ensure Canada's productivity growth will continue to rise, and with it, Canadians' standard of living. A key element in raising productivity will be to make Canada a magnet for talent and investment—a crucial part of how Canada positions itself as a "Northern Tiger." As part of this effort, the Government has made and will continue to make substantial investments to strengthen research and innovation, support skills and learning and improve Canada's health care system. It will introduce measures that build on the Government's Five-Year Tax Reduction Plan to further improve the tax system, enhance incentives to work, save and invest, promote entrepreneurship and small business, and strengthen the Canadian tax advantage for investment.

A more productive economy is not just about higher incomes for Canadians. It is also about ensuring that our economic choices integrate social and environmental considerations to ensure Canada's development is sustainable. All sectors of the economy must confront and act on this challenge to position themselves for sustainable future growth and competitiveness.

Highlights

Strengthening Research and Innovation

This budget will invest $1.7 billion in 2002–03 and over the next two years to support research and innovation, including:

- a $125-million-per-year increase in funding for Canada's three federal granting councils beginning in 2003–04;
- a new Canada Graduate Scholarships program supporting 4,000 new scholarships at program maturity;
- $225 million per year to help fund the indirect costs associated with federally sponsored research through the granting councils beginning in 2003–04;
- $16 million over the next two years for northern science;
- investments of $500 million in the Canada Foundation for Innovation for state-of-the-art health research facilities and $75 million in Genome Canada for health genomics;
- $15 million to the Rick Hansen Man In Motion Foundation and $20 million to the Medical and Related Sciences project;
- $30 million for SchoolNet and the Community Access Program;
- an additional $70 million over two years for the National Research Council of Canada to strengthen the Industrial Research Assistance Program, support astronomy and establish new regional innovation centres; and
- an additional $190 million in equity to expand venture capital by the Business Development Bank of Canada and $20 million for Aboriginal Business Canada in support of entrepreneurship and business development.

Supporting Skills and Learning

This budget provides $285 million in 2002–03 and over the next two years for skills and learning, including:

- $41 million to better attract and facilitate the integration of skilled immigrants into the Canadian labour market and society;
- $60 million over two years to improve the Canada Student Loans Program;
- $100 million for the creation of the proposed Canadian Learning Institute; and
- $72 million to improve educational outcomes for Aboriginal people and ensure they are provided with training and employment opportunities on major projects across Canada.

Improving the Tax System

This budget builds on the Government's Five-Year Tax Reduction Plan to further improve the tax system and enhance incentives to work, save and invest. This budget·

- supports Canadian ıamilies by increasing the National Child Benefit supplement and introducing a new Child Disability Benefit;
- encourages savings by Canadians by increasing the registered retirement savings plan annual contribution limit to $18,000 by 2006 and making corresponding increases for employer-sponsored registered pension plans;
- promotes entrepreneurship and small business through a number of tax changes, including an increase in the small business deduction limit to $300,000 over four years;
- strengthens the Canadian advantage for investment by legislating the elimination of the federal capital tax over five years, eliminating it for medium-sized corporations as early as 2004;
- improves the taxation of resource income in Canada by reducing the corporate tax rate of the sector to 21 per cent over the next five years while making changes to the tax structure of this key sector;
- extends the temporary mineral exploration tax credit; and
- enhances the Film or Video Production Services Tax Credit.

Advancing Sustainable Development

Budget 2003 includes measures totalling $3 billion to promote sustainable development and a healthier environment, such as:

- $2 billion over five years in measures to help implement the Climate Change Plan for Canada through: increased government support for Sustainable Development Technology Canada and the Canadian Foundation for Climate and Atmospheric Sciences; improved tax incentives in renewable energy; and funding for other climate change measures, including targeted initiatives and partnerships. Actions to promote energy efficiency, renewable energy, sustainable transportation and new alternative fuels, in such areas as building retrofits, wind power, fuel cells and ethanol, will be considered;
- an investment of $340 million over two years to address federal contaminated sites, improve air quality, better assess and manage toxic substances, further protect Canada's species at risk, and support implementation of Canada's commitments at the World Summit on Sustainable Development;
- $600 million over five years to upgrade, maintain and monitor water and waste water systems on reserves; and
- $74 million over two years as an initial investment for the establishment of 10 new national parks and 5 new national marine conservation areas and to restore the ecological health of existing parks.

Renewing Canadian Agriculture

In June 2002 the Government delivered on its previous commitment to provide predictable, long-term funding for agriculture by allocating $5.2 billion over six years to the sector. Budget 2003 builds on the new direction for agricultural policy through new investments in several areas:

- $220 million this fiscal year to provide an advance to the Crop Reinsurance Fund, ensuring that farmers will receive future payments;
- $100 million over the next two fiscal years to the Canadian Food Inspection Agency to help it maintain the food safety system;
- $30 million over the next two fiscal years to the Canadian Grain Commission to allow it to maintain its level of service to farmers;
- $113 million this fiscal year for infrastructure improvements at Canada's four veterinary colleges; and
- $20 million over the next two years to supplement Farm Credit Canada investments for further promotion of innovation in the agricultural sector.

Canada in the World

Canada has a long history of successfully embracing global markets, and Canadians recognize that international stability, security and prosperity are key to their well-being.

Developments over the last 18 months have reminded Canadians that security and prosperity cannot be taken for granted. The global environment requires a military that is funded and equipped to help shoulder its international responsibilities, as our efforts in the war against terrorism, and particularly in Afghanistan, have demonstrated. This budget provides further support to Canada's military this year and beyond.

New security concerns have demanded action to keep our borders secure, while facilitating the legitimate flow of goods, services and people. In the aftermath of September 11, 2001, the Government introduced a $7.7-billion package of measures to ensure the security of Canadians—the largest in Canadian history. Much has been achieved since then. The Government has moved ahead with important new initiatives in the areas of air, marine and border security and is committed to do more.

The Government has partnered with Canadian businesses to help them make the most of the opportunities available in Canada's major foreign markets and enter and thrive in new ones. As the pace of global competition quickens, it becomes ever more important that the Government continue to advance the interests of Canadians in active, innovative and responsive ways. This budget boosts Canada's presence in its most important foreign market, the United States.

The unrest in many parts of the world and the poverty that afflicts so many in the developing world offend Canadians' values and threaten Canada's security and economic prosperity. That is why, from its peacekeeping activities to land mine treaties to the G8 Africa Action Plan, to its leadership on debt relief and providing free access to the Canadian market for virtually all goods from the least developed countries, Canada has a rich history of effective, compassionate responses to international challenges. Such actions to combat global instability and poverty are the responsible actions of a country dedicated to helping build strong societies beyond its own borders.

Highlights

Strengthening Canada's Military

- This budget makes a significant, long-term investment in Canada's defence capabilities, including:
  - an immediate allocation of $270 million this fiscal year for Operation Apollo in Afghanistan and to address urgent capital and other requirements; and
  - an ongoing increase of $800 million per year of new funding beginning in 2003–04.
- It also sets aside a $125-million reserve for contingencies in 2002–03 and $200 million for 2003–04.

Ensuring Security at Home

- Budget 2003 builds on the large investment by the Government in 2001 to respond to Canada's changed domestic security needs. New measures include:
  - a reduction in the level of the Air Travellers Security Charge for travel within Canada from $12 to $7 for one-way travel and from $24 to $14 for round-trip travel;
  - an additional $50 million next fiscal year and $25 million in 2004–05 for the Security Contingency Reserve to help the Government to respond to unforeseen future security needs, including border security; and
  - to ensure the Canadian Coast Guard can provide necessary safety services, $94.6 million over the next two years for major repairs to its fleet for shore-based infrastructure and capital replacement purchases.

Enhancing Canada–U.S. Trade

- Recognizing that cross-border trade is critical to Canada's economy, Budget 2003:
  - supports the implementation of the Canada–U.S. 30-point Smart Border Action Plan to enhance the security of the border and facilitate the legitimate flow of people and goods; and
  - commits $11 million over the next two years to bolster Canada's representation and trade promotion activities in the U.S.

Increasing Canada's International Assistance

- Budget 2003 confirms Canada's commitment to meeting its international obligations:
  - the budget increases Canada's International Assistance Envelope by 8 per cent annually through 2004–05 toward the objective of doubling the assistance budget by 2010. This translates into an increase of $1.4 billion this fiscal year and the next two fiscal years; and
  - effective January 1, 2003, Canada is providing duty-free and quota-free access to all imports from 48 of the world's least developed countries, with the exception of certain agricultural products.

Improving Expenditure Management and Accountability

The Government has been successful in keeping the country on a sound financial footing by maintaining balanced budgets for six consecutive years since 1997–98. It has achieved this through a balanced approach to spending growth and debt and tax reduction. However, as the Minister of Finance said in the October 2002 *Economic and Fiscal Update*, "…sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services."

Sound fiscal management requires continually reviewing the value of existing programs so that the Government can reallocate resources from low priorities to high priorities. It also requires continually looking for new, more cost-effective ways to deliver government programs. And it means being transparent about how Canadians' tax dollars are being spent so that the Government can be fully accountable to Canadians.

Controlling total expenditure growth contributed significantly to bringing the budget into balance in 1997–98 after almost three decades of uninterrupted deficits, and has helped to keep it in balance since then. This has allowed the Government to reduce debt and invest in key social and economic priorities, while at the same time implementing the largest tax cuts in Canadian history. The Program Review process, during which the Government reviewed its programs to identify those that no longer served a national purpose or could be delivered more efficiently through other means, was an important contributor to controlling expenditure growth.

With this budget, the Government is undertaking new measures to better manage taxpayers' dollars, building on the experience of Program Review. These initiatives include launching an ongoing review of the relevance and efficiency of government programs, and reallocating resources from across government to highest priority areas.

Greater accountability will further support the Government's effort to improve the management of taxpayers' dollars. It will support better decision making and greater efficiency. The Government's plans to enhance accountability to Canadians include: more comprehensive and up-to-date financial reporting; clearer transparency and accountability for transfer payments to the provinces and territories in support of health care; enhanced accountability for non-governmental foundations; clear rate-setting processes for non-tax revenues including employment insurance contributions, the Air Travellers Security Charge and user charges; and measures to improve investor confidence by strengthening enforcement against securities and corporate fraud offences.

Highlights

- **Reallocation:** The Government is implementing its commitment in the October 2002 *Economic and Fiscal Update* to reallocate funding from lower to higher priorities.
  - The Government will launch an ongoing examination of all non-statutory programs on a five-year cycle under the leadership of the Treasury Board, drawing on the experience of the 1998 Program Review. The goals will be to ensure that government programs continue to be relevant, effective and affordable.
  - The Government will reallocate $1 billion per year from existing spending programs, beginning in 2003-04. This will fund close to 15 per cent of the costs of the new initiatives announced in this budget over the next two years.

- **Accrual Accounting:** Beginning with this budget, the Government will implement its commitment to present its financial statements on a full accrual accounting basis.
  - Under full accrual accounting, the Government will provide a more comprehensive accounting of its assets and liabilities, presenting a more transparent picture of the Government's financial position and enhancing accountability, the management of liabilities and the stewardship of assets.
  - Implementing full accrual accounting responds to a long-standing recommendation of the Auditor General of Canada.

- **Accountability of Foundations:** The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. This, in combination with clarifying the policy principles underlying the use of foundations, will ensure their continued effective use.

- **Accountability to Parliament:** To reinforce accountability and transparency in public reporting, the Government will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament.

- **Canada Health Transfer:** As part of the 2003 First Ministers' Accord on Health Care Renewal, the Government will implement a new Canada Health Transfer and a new Canada Social Transfer effective April 1, 2004, to improve the transparency and accountability of monies transferred for health care.

- **Employment Insurance (EI) Contribution Rate Setting:** With this budget:
  - The Government will reduce the EI employee contribution rate for 2008 to $1.90 per $100 of insurable earnings. This is the 10th reduction in the rate since 1994.
  - As well, the Government will consult on a new EI rate setting regime for 2009 and beyond, based on the principles of transparency and of balancing premium revenues with expected program costs.

- **Strengthening Investor Confidence:** This budget advances the Speech from the Throne commitment to improve regulations and to help foster a healthy marketplace and inspire confidence among investors by strengthening enforcement against securities and corporate fraud offences.

- **Air Travellers Security Charge:** This budget follows up on the Government's commitment to review the Air Travellers Security Charge to ensure that revenue from the charge remains in line with planned expenditures for the enhanced air travel security system through 2006-07.
  - As a result of that review, and reflecting the impact of the move to full accrual accounting in this budget, the Government will reduce the charge on flights within Canada by over 40 per cent, from $12 to $7 for one-way travel and from $24 to $14 for round-trip travel.

- **Debt Servicing and Reduction Account:** Legislation to terminate the Debt Servicing and Reduction Account, as recommended by the Auditor General, will be introduced.

- **User Charging and Cost Recovery:** The President of the Treasury Board will set out the principles for improved management practices relating to user charging and cost recovery. The new policy will include annual reporting of revenues and performance information to stakeholders and Parliament.

Sound Financial Management in an Uncertain World

Sound financial management has resulted in the Government recording five consecutive annual surpluses through 2001-02 and reducing the federal debt by $67 a billion. At the same time, it has allowed the Government to implement the largest tax cut in Canadian history and to invest in key priorities of Canadians, such as health care, support for lower-income families with children, education, and research and development.

This sound financial management played an important role in helping Canada avoid a recession in 2001 despite the global economic downturn. It enabled fiscal and monetary policy to provide much support to the Canadian economy through lower taxes and interest rates. The continued commitment to fiscal discipline allowed Canada to post a budgetary surplus in 2002, while all other G-7 countries posted deficits. It also helped Canada record the best economic performance among the G-7 countries in 2003, notwithstanding an uneven global recovery.

The Government is committed to maintaining the prudent approach to fiscal planning — an approach that has put Canada off and remains essential given the uncertain times. It includes a prudent approach to budget planning, with most budget decisions made over a rolling two-year horizon. It ensures the federal budget remains in balance or better, this budget ensures the full $3 billion annual Contingency Reserve and economic prudence in the fiscal projections.

This budget provides projections of the federal government's finances for 2002-03 and the next two years of the Government's budget plan. It updates the fiscal projections contained in the October 2003 *Economic and Fiscal Update*, for:

- the impact of the revised economic outlook, reflecting the most recent views of Canadian private sector economists and recent financial developments;
- the impact of the implementation of full accrual accounting; and
- the impact of the spending and revenue measures proposed in this budget.

Canada's fiscal performance stands out among the major industrialized countries. According to the OECD, Canada is the only G-7 country in surplus in 2003. It is also the only G-7 country the OECD expects to be in surplus in 2004.

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Summary of Spending and Revenue Initiatives in This Budget

Table 1 presents the fiscal impact of the spending and revenue initiatives proposed in this budget. The net cumulative fiscal cost of the measures over the three years 2002-03 to 2004-05 amounts to $17.4 billion.

Table 2 presents the fiscal outlook to 2004-05, taking into account the impact of the revised economic outlook and financial developments to date, the shift to full accrual accounting and the spending and revenue initiatives proposed in this budget.

Table 1
Spending and Revenue Initiatives: 2003 Budget

	2002–2003	2003–2004	2004–2005
		(millions of dollars)	
Spending initiatives			
Investing in Canada's health care system			
CHST supplement	2,500		
Health Reform Fund		1,000	1,500
Diagnostic/Medical Equipment Fund	1,500		
Health information technology	600		
EI compassionate care		86	221
Other health initiatives	120	283	374
Total	4,720	1,369	2,095
Investing in Canadian families and their communities			
Families with children		25	81
Canadians with disabilities		193	193
Child and family law strategy		27	26
Supporting communities			
Affordable housing and support for homeless		293	313
Infrastructure		100	150
Other		23	23
Strengthening Aboriginal communities		38	45
Promoting Canadian culture and values		168	233
Total		866	1,065
Investing in a more productive, sustainable economy			
Strengthening research and innovation	575	470	470
Skills and learning	12	171	102
Advancing sustainable development	4	839	437
Agriculture	333	65	65
Total	924	1,405	1,074
Canada in the world			
Defence	270	800	800
Contingency	125	200	
International assistance	353	232	820
Other		69	81
Total	748	1,301	1,704
Expenditure management and accountability			
Regulation	7	25	34
Expenditure reallocation		-1,000	-1,000
Total spending initiatives	6,398	3,966	4,969

Table 1
Spending and Revenue Initiatives: 2003 Budget (cont'd)

	2002–2003	2003–2004	2004–2005
		(millions of dollars)	
Revenue initiatives			
Investing in Canada's health care system			
GST rebate for health care institutions		30	55
Investing in Canadian families and their communities			
Families with children			
National Child Benefit supplement		200	300
Canadians with disabilities		95	160
Investing in a more productive, sustainable economy			
Advancing sustainable development		5	5
Improving the tax system			
Supporting savings by Canadians	25	105	165
Supporting entrepreneurship and small business		90	140
Building the Canadian tax advantage	10	140	545
EI premium rate reduction		53	178
Total revenue initiatives	35	718	1,548
Total spending and revenue initiaves	6,433	4,704	6,517

Table 2

Summary Statement of Transactions: Budget 2003: Full Accrual With Measures

	2001–2002	2002–2003	2003–2004	2004–2005
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	171.7	178.7	184.7	192.9
Total expenditures				
Program spending	124.3	138.6	143.0	149.6
Public debt charges	39.3	37.2	37.6	38.4
Total expenditures	163.5	175.8	180.7	188.0
Underlying budgetary surplus	8.2	3.0	4.0	5.0
Less prudence				
Contingency Reserve		3.0	3.0	3.0
Economic prudence			1.0	2.0
Total		3.0	4.0	5.0
Budgetary balance	8.2	0.0	0.0	0.0
Federal debt (accumulated deficit)				
Balanced budget (no debt reduction)	507.7	507.7	507.7	507.7
Non-budgetary transactions				
Loans, investments and advances	-0.1	-1.3	-1.4	-1.5
Pensions and other accounts	-0.1	0.4	-0.6	-1.4
Other	-3.2	4.3	-3.7	0.7
Total	-3.5	3.4	-5.8	-2.1
Financial requirements/source	4.7	3.4	-5.8	-2.1
Per cent of GDP				
Budgetary revenues	15.7	15.7	15.4	15.2
Program spending	11.4	12.2	11.9	11.8
Public debt charges	3.6	3.3	3.1	3.0
Budgetary balance	0.7	0.0	0.0	0.0
Federal debt (accumulated deficit)				
Balanced budget (no debt reduction)	46.5	44.5	42.2	40.1
Debt reduced by $3 billion per year	46.5	44.3	41.7	39.6

Note: Numbers may not add due to rounding.

Building the Canada We Want

Budget 2003

Investing in Canada's Health Care System

February 18, 2003

Canada

Budget

Investing in
Canada's Health Care System

Department of Finance Canada
Ministère des Finances Canada

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Building the Canada We Want

Thanks to the efforts and sacrifices of Canadians everywhere, Canada is enjoying the benefits of a thriving economy. Our nation led the G-7 in growth last year and is expected to do the same in 2005.

Budget 2005 recognizes the critical link between social and economic policy and continues the Government's balanced approach to managing the nation's finances. This approach plays a critical role in building the Canada that all Canadians want for the future. It does so in three ways.

- **building the society Canadians value** through investments in individual Canadians, their families and communities;
- **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- **building the accountability Canadians deserve** by making government spending more transparent and accountable.

Highlights

This budget makes significant investments to address the concerns of Canadians about their health care system: waiting lists, availability of diagnostic equipment and accountability for their tax dollars. These federal investments, in conjunction with those of provincial and territorial partners, will help to improve access to the health care system for Canadians, enhance accountability for how health dollars are spent, and ensure the future sustainability of the system.

- The 2003 First Ministers' Accord on Health Care Renewal is a commitment designed to improve the accessibility, quality and sustainability of the public health care system and enhance transparency and accountability in health care spending.
- Federal support to health care will increase by $16.2 billion over the next three years and by $34.8 billion over the next five years. This includes:
  - $5.3 billion in transfers to provinces and territories over the next five years;
  - $2.3 billion in an immediate investment through a Canada Health and Social Transfer (CHST) supplement to relieve existing pressures;
  - $18.3 billion over five years to provinces and territories for a Health Reform Fund targeted to primary health care, home care and catastrophic drug coverage;
  - $2.3 billion over five years in health initiatives, including diagnostic/medical equipment, health information technology, and the creation of a six-week compassionate family care leave benefit under employment insurance; and
  - $1.3 billion over five years to support health programs for First Nations and Inuit.
- First ministers have also agreed to an enhanced accountability framework to report to Canadians on the progress of reform.

- The federal government is setting out a long-term funding framework to provide provinces and territories with predictable, growing and sustainable support for health care and other social programs.
- The federal government will create two new transfers on April 1, 2004: a Canada Health Transfer (CHT) and a Canada Social Transfer (CST) to increase transparency and accountability.

Introduction

Canada's publicly funded health care system plays a key role in building the society we value. It is vital to our quality of life and a reflection of the values we share as a nation. It is also at the leading edge where economic and social policies interact. It provides Canada with the distinct economic advantage of a healthy, productive workforce and provides security in retirement.

The Romanow Commission on the Future of Health Care in Canada, the Kirby Senate Study on the State of the Health Care System in Canada and several recent provincial reports clearly indicated that Canadians want and expect improved access to quality services from our publicly funded health care system. Canadians from all parts of the country have said that modernizing medicare means providing better access to services such as primary care, diagnostic services, home care, palliative care and catastrophic drug coverage. In short, they want real, substantive reforms, along with increased transparency and accountability.

Canadians have asked that their governments work together to strengthen the health care system and ensure its long-term sustainability. The new *Accord on Health Care Renewal*, agreed to by Canada's first ministers on February 5, 2003, reflects a common commitment among governments to work together to improve access, enhance accountability for how health dollars are spent and the results achieved, and ensure that the system remains sustainable in the long term.

> "Canadians want a sustainable health care system that provides timely access to quality health services. They recognize that reform is essential, and they support new public investments targeted to achieve this goal."
>
> 2003 First Ministers' Accord on Health Care Renewal

The funds provided in this budget build on the significant investments in health care already made by the Government of Canada since the budget was balanced in 1997–98, including the September 2000 first ministers' agreement. This budget confirms increased health care funding of $34.8 billion over the next five years. The federal government is committed to ensuring that future generations of Canadians continue to have access to universal, quality care—care that is based on need, not on the ability to pay.

February 2003 Accord—A Five-Year Plan Focused on Improving Access

The agreement reached by the first ministers on February 5, 2003, sets out a plan for reforms to improve access to quality health care for Canadians. This plan builds on the September 2000 first ministers' agreement on health. Its reform themes are consistent with the recommendations of the Romanow Commission and the Kirby Senate Committee, as well as those of numerous provincial commissions on health reform.

Federal support for health care will increase by $17.3 billion over the next three years and by $34.8 billion over the next five years. It includes:

- $9.5 billion in increased cash transfers to provinces and territories over the next five years;
- $2.5 billion in a CHST supplement to relieve existing pressures, available to provinces and territories up to the end of 2005-06;
- $16.0 billion over five years in a Health Reform Fund for the provinces and territories, to target primary care, home care and catastrophic drug coverage;
- $1.5 billion to improve access to publicly funded diagnostic services;
- $600 million to accelerate the development of a national system of electronic health records;
- $500 million for research hospitals;
- $1.6 billion in direct Health Accord initiatives;
- $1.4 billion for other initiatives in support of health reform; and
- $1.3 billion to support health programs for First Nations and Inuit.

The 2003 Accord established an enhanced accountability framework under which all governments committed to providing comprehensive and regular reports to Canadians based on comparable indicators relating to health status, health outcomes and quality of service.

Table 1
Increased Federal Support for Health Care (2003–04 to 2007–08)

	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	Total
			(millions of dollars)			
Transfers						
Canada Health and Social Transfer (CHST) cash						
Cumulative increases (2000)[1]	700	1,300	1,900	2,500	3,100	9,500
CHST supplement[2]	1,000	1,000	500			2,500
Health reform						
Health Reform Fund	1,000	1,500	3,500	4,500	5,500	16,000
Diagnostic/medical equipment[3]	500	500	500			1,500
Health information technology[4]	200	200	200			600
Research hospitals (Canada Foundation for Innovation)[5]	100	100	200	100		500
Direct Health Accord initiatives	221	336	341	341	346	1,585
Other health initiatives in support of reform	337	253	258	258	258	1,364
First Nations and Inuit health	180	230	280	280	280	1,250
Cumulative funding increases			17,336 (3-Yr)		34,800 (5-Yr)	

Note: Totals may not add due to rounding. Payments under both trusts to be made in a manner that treats all jurisdictions equitably, regardless of when they draw down funds.

[1] Includes an increase of $1.8 billion over 2006–07 ($600 million) and 2007–08 ($1.2 billion).

[2] $2.5 billion to be paid to a third-party trust and accounted for in 2002–03 by the federal government. Profile based on an assumed drawdown by provinces and territories.

[3] $1.5 billion to be paid to a third-party trust and accounted for by the federal government in 2002–03. Profile based on an assumed drawdown by provinces and territories.

[4] $600 million to be paid to Canada Health Infoway and accounted for by the federal government in 2002–03.

[5] $500 million to be paid to the Canada Foundation for Innovation and accounted for by the federal government in 2002–03.

A Plan for Change

Under the 2003 Accord on Health Care Renewal, first ministers set out a range of initiatives aimed at ensuring real and lasting change for the Canadian health care system. The ultimate purpose of the Accord is to ensure that Canadians:

- have access to a health care provider 24 hours a day, 7 days a week;
- have timely access to diagnostic procedures and treatments;
- are not required to repeat their health histories or undergo the same test for every provider they see;

- have access to quality home and community care services;
- have access to the drugs they need without undue financial hardship;
- have access to quality care no matter where they live; and
- see their health care system as efficient, responsive and adaptive to their changing needs and those of their families and communities, now and in the future.

These initiatives build on the multi-year action plan for health reform outlined by first ministers in September 2000.

Reflecting their collective commitment to reform, Canada's first ministers have also agreed to pursue enhanced accountability for their health expenditures through annual public reporting on health system performance. These reports will include the indicators set out in the September 2000 agreement, as well as additional comparable indicators on the themes of quality, access, system efficiency and effectiveness. This will allow Canadians to monitor progress towards reform, track the level of access to health services and assess the overall efficiency of the health care system.

Support Through Transfers to Provinces and Territories

This budget confirms:

- A two-year extension of the original CHST five-year legislative framework put in place in September 2000, with an additional $1.8 billion, which will bring total cash transfers to $21.6 billion in 2006–07 and $22.2 billion in 2007–08.
- The restructuring of the existing CHST, to create a separate Canada Health Transfer and Canada Social Transfer effective April 1, 2004.
- A $2.5-billion CHST cash supplement to meet immediate needs in provincial and territorial health care systems. Provinces and territories will have flexibility to draw down this amount as they require up to the end of 2005–06. It will be accounted for by the federal government in fiscal year 2002–03.
- A federal government commitment to provide up to an additional $2.0 billion for health for the provinces and territories at the end of fiscal year 2003–04, if the Minister of Finance determines during the month of January 2004 that there will be a sufficient surplus above the normal Contingency Reserve to permit such an investment.

Health Reform

Federal, provincial and territorial governments have all taken steps to improve the quality, accessibility and sustainability of Canada's public health care system and have implemented important reforms. All governments recognize that reform is essential, and support new public investments targeted to achieve this goal. Priorities for reform include primary health care, targeted home care, catastrophic drug coverage, access to diagnostic/medical equipment and the development of a system of electronic health records.

Health Reform Fund

This budget provides $16 billion over five years through a special Health Reform Fund to help provinces and territories accelerate reform in priority areas identified in the first ministers' 2003 Accord. Specifically, these are:

- primary health care: to significantly increase the number of Canadians routinely receiving needed care from multidisciplinary primary health care organizations or teams, with a goal of ensuring that at least half of the population within each jurisdiction has access to an appropriate health care provider 24 hours a day, 7 days a week as soon as possible, and that this target is fully met within 8 years;
- home care: to provide first dollar coverage for a basket of services in the home and community for short-term acute home care, including acute community mental health and end-of-life care. First ministers have directed health ministers to determine by September 30, 2003, the minimum services to be provided; and
- catastrophic drug coverage: to take measures by the end of 2005–06 to ensure that Canadians, wherever they live, have reasonable access to catastrophic drug coverage.

Governments will have flexibility in determining the best ways to achieve these reform objectives, based on the particular needs of their residents and the status of reform in each jurisdiction.

Governments will prepare annual public reports on these Health Reform Fund priorities commencing in 2004, using comparable indicators to inform Canadians on progress achieved and key outcomes.

Investments under the Health Reform Fund will begin to flow to provinces and territories in 2003–04, upon passage of relevant legislation. Subject to a review of progress made in achieving the agreed-upon reforms

and following a first ministers' meeting, by March 31, 2008, the federal government will ensure that the level of funding provided through the Health Reform Fund is integrated into the Canada Health Transfer starting in 2008–09.

Diagnostic/Medical Equipment Fund

Waiting times for diagnostic services and medical treatments that rely on new equipment continue to be a major concern for Canadians. This budget builds on the $1 billion over two years provided for medical equipment in 2000 with an additional investment of $1.5 billion over the next three years. This funding will be provided to provincial and territorial governments in support of specialized staff training and equipment which improve access to publicly funded diagnostic services.

The $1.5-billion fund will be allocated to provinces and territories on an equal per capita basis. The amount will be paid into a third-party trust upon passage of relevant legislation. Provinces and territories will have flexibility to draw down funds as they require up to the end of 2005–06. It will be acccounted for by the federal governmnet in fiscal year 2002–03.

As agreed by first ministers, governments will begin in 2004 to report to their residents annually on enhancements to diagnostic and medical equipment and services, using comparable indicators, and to develop the necessary data infrastructure for these reports. This reporting will inform Canadians on service levels and outcomes, progress achieved, and current programs and expenditures, which will provide a baseline against which new investments can be tracked.

Health Information Technology—Electronic Health Records

Under the September 2000 agreement on health, the Government of Canada announced $500 million to expand the use of health information and communications technologies, including the adoption of electronic health records (EHRs). Canada Health Infoway was incorporated in 2001, and is working to develop a pan-Canadian, interoperable electronic health information system, in close partnership with federal-provincial-territorial governments and health care providers.

Electronic health records are an essential building block for a modernized, more integrated health care system. They give health providers rapid access to the medical records of their patients, including physician visits, hospital stays, prescription drugs and laboratory tests, while safeguarding patient privacy. A pan-Canadian EHR will:

- improve Canadians' access to health services by expediting diagnosis and treatment, supporting more accurate diagnosis and treatment, and eliminating distance barriers between patients and health care professionals;
- significantly improve the quality and safety of patient care by reducing the possibility of adverse drug events, such as handwritten prescription errors or allergic reactions; and
- enhance the efficiency of the health care system by reducing the costly duplication of tests, improving the quality of data, and supporting evidence-based management, decision making and research.

This budget provides an additional $600 million to Canada Health Infoway to accelerate the development of EHRs, common information technology standards across the country, and the further development of telehealth applications, which are critical to care in rural and remote areas. It will be accounted for by the federal governmment in fiscal year 2002–03.

Canada Health Infoway will report to the Canadian public and to the members of Infoway on an annual basis on its progress in implementing these initiatives. This reporting will inform Canadians on current programs, investment expenditures and milestones.

Research Hospitals (Canada Foundation for Innovation)

The integration of biomedical, clinical and health services research has given rise to needs for new and different facilities that will house sophisticated equipment and bring together researchers in new and innovative ways. The Canada Foundation for Innovation was established in 1997 to support the modernization of research infrastructure in Canadian universities and colleges, research hospitals and other non-profit research institutions across Canada.

This budget is providing new funding of $500 million in 2002–03 to the Canada Foundation for Innovation in support of such state-of-the-art health research facilities. Further details on this measure are provided in Chapter 5 of *The Budget Plan*.

Direct Health Accord Initiatives

This budget also confirms funding of $1.6 billion over the reform period of five years for direct Health Accord initiatives, including an employment insurance (EI) compassionate family care leave benefit, the Canadian Coordinating Office for Health Technology Assessment, greater patient safety, enhanced governance and accountability, a national immunization strategy, and sales tax measures in support of health care reform.

Employment Insurance Compassionate Family Care Leave Benefit

The need for economic security is particularly significant when a family is facing a crisis related to the grave illness and possible death of a family member. The Government of Canada recognizes that income support and job protection are key for workers who take time off work to care for gravely ill family members, as they often lose income and benefits due to time lost from paid employment. Therefore, on January 4, 2004, the Government will implement an employment insurance compassionate family care leave benefit.

Individuals who meet the eligibility requirements for EI special benefits, and have served the two-week waiting period, will be entitled to a six-week EI compassionate family care leave benefit to care for their gravely ill or dying child, parent or spouse. To provide flexibility in meeting the varying needs of individual families, eligible family members will be able to share the benefit. The Government will propose legislative changes so that permanent employees governed by the Canada Labour Code can benefit from the new leave provision by making sure that their jobs are protected during the leave period.

The compassionate family care leave benefit is estimated to cost $86 million in 2003–04 and $221 million in 2004–05 and each year thereafter.

Canadian Coordinating Office for Health Technology Assessment

With the development of new diagnostic and treatment technologies, there is increasing need for reliable, evidence-based information to ensure that these technologies are used in clinically beneficial, cost-effective ways.

This budget provides $45 million over the next five years to develop a Canadian Strategy for Technology Assessment. This funding will be provided to the Canadian Coordinating Office for Health Technology Assessment (CCOHTA), a non-profit organization supported by federal-provincial-territorial ministers of health. CCOHTA encourages the appropriate use of health technology through the collection, analysis, creation and dissemination of information concerning the effectiveness and cost of technology and its impact on health.

Patient Safety

Canadian health professionals are committed to achieving positive outcomes for their patients. Recently the National Steering Committee on Patient Safety issued a comprehensive report that recommended a national strategy to further reduce the incidence of medical errors and other preventable events in Canada. Among its main recommendations was the establishment of a Canadian Patient Safety Institute to promote innovative ways of improving patient safety, including professional development programs, as well as research and analysis of patient safety issues.

This budget responds to this report by providing $10 million annually to support the creation of a new Canadian Patient Safety Institute. The specific mandate, membership and activities of the Institute will be developed by federal, provincial and territorial ministers of health, in collaboration with health professional organizations and other stakeholders.

Governance and Accountability

This budget provides $205 million over five years for governance and accountability initiatives, including funding for the Canadian Institute for Health Information (CIHI), Statistics Canada and Health Canada to enhance their ability to report on the health system and the health of Canadians. A portion of this funding will also contribute to the creation and operation of a Health Council.

Canadian Institute for Health Information and Statistics Canada

The availability of accurate and timely information on trends in health status and health system performance is a crucial tool to inform responsive, patient-centred health policy decisions. CIHI and Statistics Canada have gained an international reputation for their work in expanding the basic information necessary to understand and address emerging health issues. Budget 2001 provided $95 million to support CIHI's work over four years, to be used in partnership with Statistics Canada.

Health Council

Canadians have made it clear that they want to see how their tax dollars are spent for health care and what results are achieved. Under the February 2003 Accord on Health Care Renewal, first ministers agreed to establish a Health Council to monitor and make annual public reports on the implementation of Accord priorities.

This budget contributes funding to the creation and operation of the Health Council. The Health Council will publicly report through federal-provincial-territorial ministers of health and will include representatives of both orders of government, experts and the public.

National Immunization Strategy

Immunization is one of the most effective preventive health measures. It decreases the incidence of disease and reduces pressure on the health care system. The nature of vaccines and vaccine delivery is changing. Newer vaccines are more complex, calling for higher production and safety standards and resulting in new combinations of vaccines and delivery methods.

This budget provides $45 million over five years to assist in the pursuit of a national immunization strategy. The objective of the strategy will be to ensure equitable and timely access to recommended vaccines for all Canadians in order to reduce the incidence of specific vaccine-preventable diseases. A national strategy will result in:

- improved safety and effectiveness of vaccines;
- enhanced coordination and efficiency of immunization procurement; and
- better information on immunization coverage rates within Canada.

Sales Tax Measure in Support of Health Care Reform

Under the goods and services tax and the harmonized sales tax (GST/HST), public sector bodies that provide services that are exempt from GST/HST—such as health care services—are entitled to partial rebates of the tax they pay on their purchases. Under this partial rebate system, hospitals may recover 83 per cent of the GST (and the federal portion of the HST) that they pay on their purchases, while charities and certain non-profit organizations may recover 50 per cent.

In recent years the restructuring of health care delivery has resulted in some services formerly provided in hospitals being performed in other non-profit institutions, which are entitled to the lesser rebate of GST/HST. The Department of Finance is undertaking discussions with the provinces and territories to assess and improve the current application of the health care rebate with respect to health care functions that are moved outside of hospitals. Consultations will also be held with representatives of the health care sector. The target date for the coming into force of changes to the application of the rebate is October 1, 2003.

Table 2

2003 Health Accord—Research Hospitals and Direct Health Accord Initiatives

	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	Total
			millions of dollars			
Research hospitals						
Canada Foundation for Innovation[1]	100	100	200	100		500
Direct health accord initiatives						
Employment insurance family care leave benefit	66	221	221	221	221	970
Canadian Coordinating Office for Health Technology Assessment	5	10	10	10	10	45
Patient safety	10	10	10	10	10	50
Governance and accountability[2]	65	30	30	30	30	205
National immunization strategy	5	10	10	10	10	45
Sales tax measure in support of health care reform	30	55	60	60	65	270
Subtotal	221	336	341	341	346	1,585
Total	321	436	541	441	346	2,085

[1] $200 million accounted for by the federal government in 2002-03.

[2] $70 million for CIHI accounted for by the federal government in 2002-03.

Other Health Initiatives in Support of Reform

This budget also confirms funding of $1.8 billion over the next five years for a series of other health initiatives that support reform in health care delivery.

Research and Innovation

Health research is a vital component of Canada's health care system. It is the source of new knowledge about human health and wellness that can be used to better prevent, diagnose and treat disease, and to better manage the health care system. Health research leads to the development of improved drug therapies, new medical equipment and innovative ways to organize and deliver health services.

The federal government provides significant funding for health research through its support for students, researchers, universities, research hospitals and other institutes, and also undertakes research in its own laboratories. These activities help keep Canada at the forefront of discovery and translate into better health care for Canadians.

The budget provides over $900 million in this and the next five years to support health research in Canada. An additional $65 million annually will be provided to the Canadian Institutes of Health Research to advance health research in Canada through its network of 13 virtual institutes. In addition, the Government is investing $75 million in Genome Canada for health genomics and providing $10 million to be used over seven years by the Rick Hansen Man In Motion Foundation to support its progress in finding a cure for spinal cord injuries. Finally, about half of the $225 million per year provided to universities, research hospitals and colleges to help fund the indirect costs of federally sponsored research will support health-related disciplines. Additional details are presented in Chapter 5 of *The Budget Plan*.

Canadian Health Services Research Foundation

In addition to making significant new investments in health research, it is equally important to ensure that health professionals and health system managers are equipped with the necessary skills to assess and apply the growing body of health research in the decisions they make every day.

The budget provides $25 million to be used over 10 years by the Canadian Health Services Research Foundation to initiate the Executive Training for Research Application (EXTRA) program. EXTRA will focus on training managers to use relevant research and innovation, thus complementing recent federal investments to train academics to *produce* more relevant research and innovation.

Pharmaceuticals Management

Access to safe, effective, new human drugs requires timely, efficient and scientifically rigorous review in all phases of the product cycle, including reviews and approvals by Health Canada and ongoing surveillance of safety and therapeutic effectiveness once a drug is on the market. Federal, provincial and territorial governments also require evidence on the cost-effectiveness of drugs in order to make sound, long decisions for public drug plan formularies.

The budget provides $180 million over five years to improve the timeliness of Health Canada's regulatory processes with respect to human drugs, in order to create a better climate for research in pharmaceuticals while preserving the principle that safety is of paramount concern.

Planning, Coordination and Forecasting

Canada's health care system depends on skilled, dedicated health professionals to provide quality care to citizens. Ensuring an appropriate supply and distribution of nurses, doctors and other health care providers is a challenge for all governments. In addition, ongoing changes in the delivery of health care services, particularly the trend towards multidisciplinary, team-based approaches to primary care, mean that the roles and responsibilities of various health care providers are evolving. The collaborative efforts of governments and health professional organizations are required to address such health human resource issues.

This budget provides $90 million over five years to improve national health human resource planning and coordination, including better forecasting of health human resource needs. It will also support the expansion of professional development programs to ensure that health professionals have the necessary knowledge and training to work effectively in multidisciplinary primary health care teams.

Health Services in Official Language Minority Communities

There are many Canadians who live in linguistic minority communities where they have limited access to health care services in their own language. It is important to ensure that there are enough health care providers who can work in minority language communities and that providers have access to the information and training needed to serve patients in their own language.

This budget provides $67 million over five years to implement a training and retention initiative for health professionals and a community networking initiative to improve access to services in both official languages in linguistic minority communities.

Wellness—Sport Participation

Participation in sport and physical activity contributes to a healthy lifestyle that enables Canadians to live healthier, longer and more productive lives.

This budget provides $65 million over five years to increase participation in sport and other fitness activities. The funding will be directed at the broadest possible level of participation to increase the exposure of children and youth to sport in the school setting and to encourage communities to increase individual and family-based sport participation.

Table 4

2005 Health Measures: Other Health Initiatives in Support of Reform

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
			(millions of dollars)			
Other health initiatives in support of reform						
Research and Innovation	150	175	175	175	175	850
Canadian Health Services Research Foundation	30					30
Pharmaceuticals management	55	65	65	65	65	315
Planning, coordination and partnerships	15	20	20	20	25	100
Health services in official language minority communities	15	15	30	30	30	120
Substance abuse initiatives	5	10	10	10	10	45
Total	270	285	300	300	305	1,460

[illegible]

First Nations and Inuit Health

The Government is committed to improving health care delivery in health policy areas under its direct responsibility, with a view to closing the health status gap between Aboriginal and non-Aboriginal Canadians. To this end, $1.1 billion over the next five years will be dedicated to First Nations and Inuit health programs, including new investments for nursing and capital development on reserves. This will include $65 million for a national recruitment strategy.

These measures complement funding identified in the December 2004 budget for programs that support early childhood development, with a particular focus on First Nations children on reserve. On October 31, 2005, total funding of $320 million over five years was announced to expand and enhance the Aboriginal Head Start program and the First Nations and Inuit Child Care Initiative. This funding will also ensure efforts to address Fetal Alcohol Syndrome/Fetal Alcohol Effects on reserves and to support culturally appropriate Aboriginal children's services, as well as research in the community level.

Federal Transfers to Provinces and Territories

Predictable, Sustainable and Growing Support

This budget provides a predictable, sustainable and growing long-term funding and planning framework for transfers to provinces and territories in support of health care and other social programs.

Following the September 2000 agreements on health and early childhood development, the federal government provided provinces and territories with a predictable, and growing, five-year funding framework to 2005-06 through the Canada Health and Social Transfer (CHST).

As agreed by first ministers in the 2003 Accord, the existing transfer funding track will be extended for an additional two years, to include 2006-07 and 2007-08, and increased by $1.8 billion. This is consistent with federal commitments made at the time of the first ministers' meeting in 2000.

Legislation will be introduced to establish levels for cash transfers up to 2007-08: $19.8 billion in 2003-04, $20.4 billion in 2004-05, $21 billion in 2005-06, $21.6 billion in 2006-07 and $22.2 billion in 2007-08.

The budget also indicates planned levels for total cash transfers to 2010-11 to provide a 10-year predictable and growing funding framework for the provinces and territories; subject to first ministers' review of progress on reforms, these levels will be confirmed in legislation prior to the end of 2007-08.

Federal cash transfers to provinces and territories in support of health and other social programs are thus planned to double over a 10-year period, growing to $31.3 billion in 2010-11 from $15.5 billion in 2000-01. This means that cash transfers grow at 7.3 per cent annually on average during that period. This average annual growth in transfers will be greater than nominal growth in the economy, estimated at 4.7 per cent, over the same period.

In addition, tax transfers will continue to be an important element of the growing and predictable funding provided to the provinces and territories. They will bring the total transfers to $48.8 billion by 2007-08 and to $56.0 billion by 2010-11.

Table 4

10-Year Framework: Federal Transfers in Support of Health and Other Social Programs

				New legislative framework							
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
	(millions of dollars)										
Cash transfers	15,500	18,300	19,100	20,800	21,400	21,500	21,600	22,200	28,900	30,200	31,500
Health Reform Fund				1,000	1,500	3,500	4,500	5,500			
				Average annual growth rate of cash support: 7.3%							
Tax transfers	16,400	16,150	16,150	16,950	17,900	18,900	20,000	21,100	22,300	23,300	24,500
Total	31,900	34,450	35,250	38,750	40,800	43,900	46,100	48,800	51,200	53,500	56,000

Note: Cash and tax transfers for 2000-01 to 2003-04 are provided under the Canada Health and Social Transfer (CHST). Beyond 2003-04 the transfers are provided under the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). Cash amounts for 2008-09 ongoing include the roll-in of $2.5 billion from the Health Reform Fund (subject to a review by first ministers by the end of 2007-08). CHST supplement is included under cash transfers for 2003-04 to 2005-06, based on notional drawdown.

Increased Accountability

The CHST, originally created in 1996, combined the former Established Programs Financing and Canada Assistance Plan. A block transfer of federal support for health, post-secondary education, and social assistance and social services provided provincial and territorial flexibility to allocate funding according to their respective priorities.

In recognition of the desire to improve the transparency and accountability of federal support to provinces and territories, first ministers have agreed that the CHST will be restructured. This will be done while maintaining the important commitments to the five principles of medicare (comprehensiveness, universality, portability, accessibility and public administration), the prohibition against residency requirements for social assistance and the flexibility provided to provinces and territories for program design and delivery.

Current Transfer Structure

Canada Health and Social Transfer

In 2002–03 the federal government is transferring over $35 billion to provinces and territories through the CHST in support of health, post-secondary education, social assistance and social services, including early childhood development.

Since 1996 the CHST has been the federal government's largest transfer to provinces and territories. It is made up of a cash component worth $19.1 billion and a tax transfer component worth $16.2 billion in 2002–03. CHST entitlements are provided on an equal per capita basis to all provinces and territories.

While CHST cash has been set on a predictable growth path, the tax transfer component of the CHST, an important part of the federal government's ongoing support for health and social programs, continues to grow as well.

The tax transfer was implemented in 1977 when the federal government, with the agreement of provincial and territorial governments, reduced its personal and corporate income tax rates, while the provinces simultaneously raised theirs by the same amount. As a result, the revenue that would have flowed to the federal government began to flow directly to the provincial and territorial governments. The value of this tax transfer generally grows in line with the growth in the Canadian economy.

Equalization and Territorial Formula Financing

In addition, the federal government also provides support to provinces and territories through equalization and Territorial Formula Financing (TFF). In 2002–03 eight provinces receive $10.3 billion under equalization and the three territories receive $1.3 billion under TFF. Cash support provided under these two programs is unconditional and can be used to support health and other social programs in recipient provinces and territories.

Effective April 1, 2004, the federal government will create two new transfers:

- A Canada Health Transfer in support of health.
- A Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

The existing CHST (cash and tax transfer) will be apportioned between the Canada Health Transfer and Canada Social Transfer. The percentage of cash and tax points apportioned to the Canada Health Transfer will reflect the percentage of health spending within overall provincial spending in the health and social sectors supported by federal transfers. The remaining cash and tax points will be allocated to the Canada Social Transfer in support of post-secondary education, social assistance and social services, including early childhood development.

Current estimates are that health represents 62 per cent of programs supported by federal transfers, while the proportion related to post-secondary education and social assistance is 38 per cent. The precise apportionment will be determined when legislation is tabled.

The tax transfer component of the CHST will be maintained as part of the Canada Health Transfer and Canada Social Transfer structure. Total allocation of the new transfers to provinces and territories will continue on an equal per capita basis. Federal support to provinces and territories for health care is provided on an equal per capita basis to ensure equal support for all Canadians regardless of their place of residence.

Creating distinct transfers for health and other social spending will provide Canadians with information on the federal government's long-term contribution to health care consistent with the recommendations of the Auditor General, and will continue to provide flexibility for provinces and territories.

Canada Health Transfer

On the basis of the above proportions, and subject to final confirmation, the cash support under the new Canada Health Transfer would be as follows:

- The Canada Health Transfer cash would be $12.65 billion in 2004–05, $13.0 billion in 2005–06, $13.4 billion in 2006–07 and $13.75 billion in 2007–08.
- The Canada Health Transfer (cash and tax transfer) would thus be expected to grow to $26.85 billion in 2007–08 from $23.75 billion in 2004–05.

- Subject to a review of progress towards achieving the agreed-upon reforms and following a First Ministers meeting, $5.5 billion from the Health Reform Fund will be rolled into the Canada Health Transfer effective April 1, 2008.

Canada Social Transfer

On the basis of the above proportions, and subject to final confirmation, the cash levels for the new Canada Social Transfer would be set as follows:

- The Canada Social Transfer cash levels would be $7.75 billion in 2004–05, $8.0 billion in 2005–06, $8.2 billion in 2006–07 and $8.45 billion in 2007–08. The Canada Social Transfer will include the $500 million per year notionally allocated to early childhood development.
- The Canada Social Transfer (tax and cash components) would thus be expected to grow to $16.45 billion in 2007–08 from $14.55 billion in 2004–05.

Cash contributions under the new Canada Health Transfer and the new Canada Social Transfer will continue to be provided for the purpose of maintaining the national criteria and conditions in the Canada Health Act, including those respecting the five principles and the provisions relating to extra-billing and user charges, and the prohibition against residency requirements for social assistance.

Table 5

New Canada Health Transfer and Canada Social Transfer (2000–01 to 2007–08)

				New legislative framework				
	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008
	(millions of dollars)							
Canada Health and Social Transfer (CHST)								
CHST cash	15,500	18,300	19,100	19,800				
CHST tax transfers	16,400	16,150	16,150	16,950				
Total	31,900	34,450	35,250	36,750				
CHST supplement[1]				1,000	1,000	500		
Health Reform Fund				1,000	1,500	3,500	4,500	5,500
Total				2,000	2,500	4,000	4,500	5,500
Canada Health Transfer (CHT)								
CHT cash[2]					12,650	13,000	13,400	13,750
CHT tax transfers[3]					11,100	11,700	12,400	13,100
Total					23,750	24,700	25,800	26,850
Canada Social Transfer (CST)								
CST cash[2]					7,750	8,000	8,200	8,450
CST tax transfers[3]					6,800	7,200	7,600	8,000
Total					14,550	15,200	15,800	16,450
Total cash transfers	15,500	18,300	19,100	21,800	22,900	25,000	26,100	27,700
Total tax transfers	16,400	16,150	16,150	16,950	17,900	18,900	20,000	21,100
Total	31,900	34,450	35,250	38,750	40,800	43,900	46,100	48,800

Note: Totals may not add up due to rounding.

[1] $2.5 billion cash supplement to be paid to a third-party trust and accounted for in 2002–03 by the federal government. Based on assumed drawdown of the funds as required, up to the end of 2005–06.

[2] Current estimates. The precise apportionment will be determined when legislation is tabled.

[3] Projections.

Other Federal Support for Health Care

In addition to federal support to health care provided through transfers—CHST (CHT starting in 2004–05), equalization and Territorial Formula Financing—the federal government provides support through other direct or tax measures currently amounting to $5 billion annually:

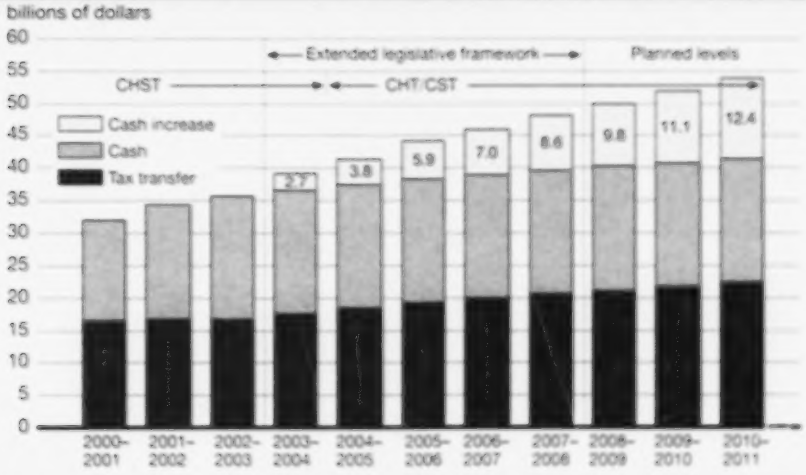
- Spending for health care of about $4 billion a year for First Nations' health, veterans' health, health protection, disease prevention, health information and health-related research.
- As well, through the tax system, the federal government provides support worth about $1 billion a year, including credits for medical expenses, disability, caregivers and infirm dependants.

Other Support for Post-Secondary Education and Social Programs

In addition to federal support for other social sectors provided through transfers—CHST (CST starting in 2004–05), equalization and Territorial Formula Financing—the federal government provides support through other direct or tax measures:

- About $5 billion for post-secondary education, including student financial assistance, support for research and support for Canadians upgrading their skills or saving for their education.
- Approximately $15 billion for social assistance and social services, including the Canada Child Tax Benefit, employment insurance parental benefits, First Nations' social programs and primary education, and programs and services for disadvantaged Canadians (e.g., youth at risk, the homeless and persons with disabilities).

Growing Support for Health and Social Programs



Note: Cash increase includes CHST increases, CHST supplement and the Health Reform Fund. Years 2008–09 to 2010–11 reflect the roll-in of $5.5 billion from the Health Reform Fund (subject to a review by first ministers by the end of 2007–08).

Building the Canada We Want

Budget 2003

Improving Expenditure Management and Accountability

February 18, 2003

Canada

Budget

Improving Expenditure Management and Accountability

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Building the Canada We Want

Thanks to the efforts and sacrifices of Canadians everywhere, Canada is enjoying the benefits of a thriving economy. Our nation led the G-7 in growth last year and is expected to do the same in 2003.

Budget 2003 recognizes the critical link between social and economic policy and continues the Government's balanced approach to managing the nation's finances. This approach plays a critical role in building the Canada that all Canadians want for the future. It does so in three ways:

- **building the society Canadians value** through investments in individual Canadians, their families and communities;
- **building the economy Canadians need** by promoting productivity and innovation while staying fiscally prudent; and
- **building the accountability Canadians deserve** by making government spending more transparent and accountable.

Highlights

- **Reallocation**: The Government is implementing its commitment in the October 2002 *Economic and Fiscal Update* to reallocate funding from lower to higher priorities.
  - The Government will launch an ongoing examination of all non-statutory programs on a five-year cycle under the leadership of the Treasury Board, drawing on the experience of the 1994 Program Review. The goals will be to ensure that government programs continue to be relevant, effective and affordable.
  - The Government will reallocate $1 billion per year from existing spending programs, beginning in 2003–04. This will fund close to 15 per cent of the costs of the new initiatives announced in this budget over the next two years.
- **Accrual Accounting**: Beginning with this budget, the Government will implement its commitment to present its financial statements on a full accrual accounting basis.
  - Under full accrual accounting, the Government will provide a more comprehensive accounting of its assets and liabilities, presenting a more transparent picture of the Government's financial position and enhancing accountability, the management of liabilities and the stewardship of assets.
  - Implementing full accrual accounting responds to a long-standing recommendation of the Auditors General of Canada.
- **Accountability of Foundations**: The Government will make a number of changes to improve the accountability and governance arrangements of arm's-length foundations. This, in combination with clarifying the policy principles underlying the use of foundations, will ensure their continued effective use.
- **Accountability to Parliament**: To reinforce accountability and transparency in public reporting, the Governement will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament.

- **Canada Health Transfer**: As part of the 2003 First Ministers' Accord on Health Care Renewal, the Government will implement a new Canada Health Transfer and a new Canada Social Transfer effective April 1, 2004, to improve the transparency and accountability of monies transferred for health care.

- **Employment Insurance (EI) Contribution Rate Setting**: With this budget:

  - The Government will reduce the EI employee contribution rate for 2004 to $1.98 per $100 of insurable earnings. This is the 10th reduction in the rate since 1994.

  - As well, the Government will consult on a new EI rate-setting regime for 2005 and beyond, based on the principles of transparency and of balancing premium revenues with expected program costs.

- **Strengthening Investor Confidence**: This budget advances the Speech from the Throne commitment to improve regulations and to help foster a healthy marketplace and inspire confidence among investors by strengthening enforcement against securities and corporate fraud offences.

- **Air Travellers Security Charge**: This budget follows up on the Government's commitment to review the Air Travellers Security Charge to ensure that revenue from the charge remains in line with planned expenditures for the enhanced air travel security system through 2006–07.

  - As a result of that review, and reflecting the impact of the move to full accrual accounting in this budget, the Government will reduce the charge on flights within Canada by over 40 per cent, from $12 to $7 for one-way travel and from $24 to $14 for round-trip travel.

- **Debt Servicing and Reduction Account**: Legislation to terminate the Debt Servicing and Reduction Account, as recommended by the Auditor General, will be introduced.

- **User Charging and Cost Recovery**: The President of the Treasury Board will set out the principles for improved management practices relating to user charging and cost recovery. The new policy will include annual reporting of revenues and performance information to stakeholders and Parliament.

Introduction

The Government has been successful in keeping the country on a sound financial footing by maintaining balanced budgets for six consecutive years since 1997–98. It has achieved this through a balanced approach to spending growth and debt and tax reduction. However, as the Minister of Finance said in the October 2002 *Economic and Fiscal Update*, "...sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services."

Sound fiscal management requires continually reassessing the value of existing programs so that the Government can reallocate resources from low priorities to high priorities. It also requires continually looking for new, more cost-effective ways to deliver government programs. And it means being transparent about how Canadians' tax dollars are being spent so that the Government can be fully accountable to Canadians.

Controlling total expenditure growth contributed significantly to bringing the budget into balance in 1997–98 after almost three decades of uninterrupted deficits, and has helped to keep it in balance since then. This has allowed the Government to reduce debt and invest in key social and economic priorities, while at the same time implementing the largest tax cuts in Canadian history. The Program Review process, during which the Government reassessed its programs to identify those that no longer served a national purpose or could be delivered more efficiently through other means, was an important contributor to controlling expenditure growth.

With this budget, the Government is undertaking new measures to better manage taxpayers' dollars, building on the experience of Program Review. These initiatives include launching an ongoing review of the relevance and efficiency of government programs, and reallocating resources from across government to highest priority areas.

Greater accountability will further support the Government's effort to improve the management of taxpayers' dollars. It will support better decision making and greater efficiency. This booklet describes the Government's plans to enhance accountability to Canadians. These include: more comprehensive and up-to-date financial reporting; clearer transparency and accountability for transfer payments to the provinces and territories in support of health care; enhanced accountability for non-governmental foundations; clear rate-setting processes for non-tax revenues including employment insurance (EI) contributions, the Air Travellers Security Charge and user charges; and measures to improve investor confidence by strengthening enforcement against securities and corporate fraud offences.

Commitment to Expenditure Reallocation and Sound Program Management

Sound fiscal management means more than simply avoiding deficits and reducing debt. It also means managing tax dollars well and responsibly, and delivering cost-effective and efficient government services. With this budget, the Government is increasing its efforts to reassess government programs on an ongoing basis, reallocate its spending and deliver cost-effective and efficient government services.

Reallocation and Efficiency Improvement: Experience to Date

In the 1994 budget the Government announced the Program Review initiative. The purpose of that review was to identify those programs that no longer served a national purpose or could be delivered more efficiently through other means. The initial results of the review were detailed in the 1995 budget. Program Review was recognized not only as a tool to achieve short-term spending reductions, but also as an opportunity to "get government right." The Government now wants to build on the principles that underpinned Program Review and incorporate them into an ongoing review process.

Since balancing the budget the Government has introduced new program spending in a number of key priority areas. Incremental operating and capital funding has also been provided to departments and agencies in a limited number of areas that were regarded as essential to the health and safety of Canadians or critical to the sustainability of high quality public services. For the most part, however, departments and agencies have been required to absorb workload and price increases from within their existing budgets and have had to review their existing spending and to reallocate and prioritize on a continual basis.

The capacity of the Government to deliver high quality services for the 21st century depends on a public service that is innovative, dynamic and reflective of the country's diversity—one that is able to attract and develop the talent required. For this reason, the President of the Treasury Board recently tabled legislation to modernize the Public Service of Canada, for what resources have been provided.

Reallocations and Efficiency Improvements: Renewing Government Efforts

The 2002 Speech from the Throne announced that the Government would renew its efforts to "... reallocate resources to the highest priorities and transform old spending to new purposes." This budget follows through on that commitment.

The Government will make reallocation from lower to higher priorities an integral part of the way it manages. To that end, the Treasury Board will lead a systematic and ongoing examination of all non-statutory government programs, drawing on the experience of the 1994 Program Review exercise. The goals will be to ensure that government programs continue to be relevant, effective and affordable. Over a five-year cycle the Treasury Board will challenge all departments and agencies about their programs using the following tests:

- Does the program area or activity continue to produce results that reflect government priorities and the current needs of Canadians—is it still relevant?
- Value for money: Are the resources that have been allocated being used in the most efficient and effective way to deliver appropriate results?
- Is it necessary for the federal government to operate this program or activity—could it be transferred in whole or in part to other levels of government or to the private or voluntary sector?
- What are the interrelationships with other organizations and what is the scope for considering more effective program structures and service delivery arrangements—within the federal government, with other levels of government, as well as with the private and voluntary sectors?
- Are department and agency management practices appropriate and of sufficient quality?

In addition to these departmentally focused reviews, the Treasury Board will also identify a number of "horizontal" reviews, where the issues to be addressed cut across a number of departments. The Treasury Board will ensure that departmental Reports on Plans and Priorities or Performance Reports adequately inform Parliament of the outcomes of these expenditure reviews.

Ongoing reviews of expenditures will give the Government the capacity to reallocate resources from lower to higher priority areas reflecting the changing needs of Canadians, and will ensure that departments continually look for ways to deliver their programs in the most cost-effective manner.

To demonstrate its commitment to reallocating spending and improving efficiency, the Government will reallocate $1 billion from existing spending beginning in 2003–04 to fund higher government priorities. This reallocation will be permanent and represent about 15 per cent of the cost of the new initiatives announced in this budget over the next two years.

The Treasury Board will work with departments and agencies to identify lower priority programs that can be eliminated or reduced. Details of the reallocation will be announced by the President of the Treasury Board in early May. In the event that these measures do not generate the amount of savings needed, the Treasury Board will require departments and agencies to contribute from their operating and transfer budgets to make up for the shortfall.

Significant new resources are being allocated in this budget to address the priority needs of Canadians. The Treasury Board will have the authority to reduce the funding released to departments and agencies for these measures if it determines that the actual program financing needed to meet the program's objectives as set out in the budget turns out to be less than currently estimated.

As part of its ongoing review of programs, the Treasury Board will continue to examine the scope for reallocating from lower to higher priorities and may adjust departmental and agency budgets accordingly.

Implementing Full Accrual Accounting

As recommended by the Auditor General, and beginning with this budget, the Government will adopt full accrual accounting as its accounting standard, replacing the modified accrual standard it had been using since the mid-1980s. Under full accrual accounting, the Government's financial statements will provide a more comprehensive and up-to-date picture of the Government's financial situation.

The auditing standards body and the Auditor General strongly support the implementation of full accrual accounting by the Government of Canada.

- The Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, which recommends accounting standards for senior levels of government, urges all governments in Canada to adopt full accrual accounting.
- The Auditor General has strongly recommended full accrual accounting as "...superior to the Government's current accounting policies."

The Government announced its commitment to full accrual accounting in the 1995 budget. The Auditor General encouraged the Government to resolve any issues impeding the introduction of full accrual accounting, and to implement it for the 2002–03 financial statements. After extensive consultations with the Office of the Auditor General, the Government is confident that it has sufficient assurance as to the reliability of the accrual accounting amounts that it can now proceed in this budget.

Implementing full accrual accounting will improve transparency and accountability because:

- The Government's balance sheet will provide a more comprehensive picture of the Government's assets and liabilities. For example, the value of the buildings that the Government owns will appear on its balance sheet for the first time, as will its liabilities for cleaning up contamination on its properties.
- The annual budgetary balance will better reflect the impact of economic events and government decisions during the fiscal year. For example, year-to-year changes in recorded tax revenues will more accurately reflect the year-to-year changes in the tax base and tax rates, as these changes will be much less affected by collection and remittance lags.
- The annual budgetary balance will better reflect the impact of government decisions during the fiscal year. In particular, government decisions that cause an increase (or decrease) in the Government's liabilities for environmental clean-ups in areas of federal jurisdiction, potential liabilities related to Aboriginal claims, and post-employment and retirement benefits for federal employees will be recorded as expenditures in the year in which the decision was made. Under modified accrual accounting, the full costs of some of these decisions would not be shown in the Government's financial statements until the resulting cash payments were made many years later.

Implementing full accrual accounting will provide new information that can be used to improve government decision making in the following ways:

- As full accrual accounting recognizes the value of the Government's physical assets in its financial statements, it will encourage the development of better policies for maintaining those assets and better decisions about whether to buy, lease or sell buildings and equipment.
- Full accrual accounting will show more accurately the cost of owning and operating capital equipment, providing a better picture of the cost of providing some programs and services.
- More complete recording of the Government's liabilities will encourage departments to develop better plans for managing those liabilities.

The shift to full accrual accounting affects tax revenues and the valuation of liabilities and non-financial assets, thereby leading to some changes in the budgetary balance in all years.

- For example, under full accrual accounting, tax revenues are accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Largely due to the accrual of tax revenues, the budgetary surplus for 2001–02 has been reduced by $0.7 billion to $8.2 billion.
- Full accrual accounting changes the figure for debt because additional liabilities are fully recognized, and non-financial assets, such as government buildings, are now included.

A complete description of the impact of the change to full accrual on the budgetary balance and the federal debt is presented in Annex 6 of *The Budget Plan*. This annex presents financial data for the period 1993–94 to 2001–02 on the new basis and includes a comparison to the previous financial data, which were prepared on a modified accrual basis.

The Accountability of Foundations

In 1997 the Government introduced a new approach to meeting the needs of Canadians—foundations. Foundations use up-front endowment funding and independent arm's-length boards of directors made up of experienced and knowledgeable individuals. Their arm's-length nature, financial stability and focused expertise allow them to address specific challenges in a highly effective, non-partisan manner. As a result, foundations have become important tools for implementing policy, in particular in areas such as research and development and education, where expert knowledge, third-party partnerships and stable long-term funding are especially important.

To clarify the circumstances under which foundations are used by the Government, this budget sets out principles which the Government would consider in using a foundation to deliver public policy:

- Foundations should focus on a specific area of opportunity, in which policy direction is provided generally through legislation and/or a funding agreement.
- Foundations should harness the insight and decision-making ability of independent boards of directors with direct experience in and knowledge about the issues at stake.
- Decisions by foundations should be made using expert peer review.

- Foundations should be provided with guaranteed funding that goes beyond the annual parliamentary appropriations to give the foundations the financial stability needed for the comprehensive medium- and long-term planning that is essential in their specific area of opportunity.
- Foundations should have the opportunity and hence the ability to lever additional funds from other levels of government and the private sector.

These policy principles are consistent with the Treasury Board's new Policy on Alternative Service Delivery, which came into effect on April 1, 2002.

A key ingredient of the success of foundations is their independence. However, this has led to some concern as to their transparency and accountability. Current funding agreements with foundations specify their mandates and the conditions under which they operate. Further, directors are fully responsible for the actions of foundations, and all foundations are subject to annual independent audits of their financial statements.

As part of its ongoing effort to improve transparency and accountability, the Government will make a number of changes to improve the accountability of foundations to Canadians and parliamentarians.

Parliamentary Approval: The Government is taking steps to ensure that the establishment and funding of foundations is adequately reviewed by Parliament.

- The Government is committed to parliamentary approval of purpose and funding through direct legislation for those foundations that are significant either from a policy or financial perspective. In all cases Parliament will need to approve funding for foundations. As noted above, the Government's use of foundations will respect the requirements of the Treasury Board's Policy on Alternative Service Delivery.

Public Reporting: To improve the transparency and therefore the accountability of foundations to the public, the Government will take the following steps:

- Foundations will be required to provide corporate plans annually to the Minister responsible for administering the funding agreement over the duration of the agreement. Such corporate plans will include planned expenditures, objectives and performance expectations relating to the federal funding. Summaries of these plans will be made public by the responsible Minister and provided to Parliament.
- In addition, the departmental Reports on Plans and Priorities, which are tabled in Parliament, will incorporate the significant expected results to be achieved by the relevant foundations and situate these within the

Department's overall plans and priorities. As well, the Department responsible for administering the funding agreement will report on the significant results achieved by the foundation(s) in its Departmental Performance Report for the duration of the funding agreement and situate these within the Department's overall results achieved.

- The Annual Report for each foundation, including relevant performance reporting, audited financial statements and evaluation results, will be presented to the Minister responsible for the funding agreement and made public. The Annual Reports of foundations created explicitly through legislation will be tabled in Parliament by the responsible Minister.
- All foundations' Annual Reports will contain performance information as well as audited financial statements prepared in accordance with Generally Accepted Accounting Principles. As foundations are independent, not-for-profit organizations that have their own governance structures and members, it is the members, as "shareholders" of the foundation, who appoint their external auditor and to whom the external auditor reports.

Compliance With Funding Agreements. The accountability of foundations will be further enhanced through the following measures:

- Foundations will be required to conduct independent evaluations, present these to the Minister responsible and make them public. Departments will incorporate any significant findings in their annual Departmental Performance Reports, which are tabled annually in Parliament.
- Funding agreements reached with foundations arising from the 2003 budget contain provisions for independent audits of compliance with funding agreements and for program evaluations. There will also be provisions for intervention in the event the responsible Minister feels there have been significant deviations from the terms of the funding agreement. The provisions will provide for dispute resolution mechanisms.
- Further, in all new funding agreements provisions will be put in place so that the responsible Minister may, at his/her discretion, recover unspent funds in the event of winding up.

The above is on a going-forward basis. The Government will also consult with existing foundations to explore making changes to their agreements with the Government to incorporate these new requirements.

The adoption of these requirements addresses many of the issues about accountability of foundations that were raised in the April 2002 *Report of the Auditor General of Canada*. For further information, see Annex 9 of *The Budget Plan*.

Improving Reporting and Accountability to Parliament

Canadians have a right to know what is achieved through the use of their tax dollars. To reinforce accountability and transparency in public reporting, the Government will continue to improve the relevance, timeliness and clarity of the information it provides to Parliament. More specifically, the Treasury Board will:

- Make greater use of electronic reporting of expenditures and the results achieved by government programs and services;
- Ensure that departmental Reports on Plans and Priorities or Performance Reports adequately inform Parliament of the outcomes of the expenditure reviews that the Treasury Board undertakes;
- Review the use of the Treasury Board Contingencies Vote, Vote 5 and how it is reported to Parliament.

In addition, in consultation with parliamentarians, parliamentary committees and the Auditor General, the Government will identify opportunities to improve parliamentary reporting in order to better meet the needs of parliamentarians and the public. These actions will ensure high standards in the management and delivery of public programs and services.

The Accountability of Health Ministers

The 2003 First Ministers' Accord on Health Care Renewal set out an action plan to ensure that all Canadians have timely access to quality health care on the basis of need and not ability to pay. The Accord established a new accountability framework, monitored through the creation of a Health Council to report regularly to Canadians on the quality of their health care system.

Enhanced accountability and improved performance reporting are essential to ensuring Canadians that reforms are occurring and that the quality health care system Canadians demand is being provided in a cost-effective, affordable and sustainable manner. First ministers agreed to report to their residents on health programs and services, health system performance, health outcomes and health status, as well as their use of all health care dollars.

The new Health Council will publicly report through federal, provincial and territorial health ministers, providing comprehensive information on the access, quality, efficiency and effectiveness of the reforms governed and objectives of the 2003 Accord.

[illegible] to improve the transparency and accountability of federal support to provinces and territories. Key elements have generally been the Canada Health and Social Transfer and its predecessors, which, in exchange for commitments to the five principles of medicare, the provinces receive minimum levels of resources, expressed in dollar terms, provided to provinces and territories for programs (wages and salaries) [illegible] of The Budget Plan for [illegible].

Effective April 1, 2004, the federal government will create two new transfers: the Canada Health Transfer (CHT) in support of Canada's health care system, and Canada Social Transfer in support of post-secondary education, social assistance and social services (including early childhood development).

The CHT will make a commitment the federal government's long-term contribution to health care, consistent with the Auditor General's recommendations that the federal government "provide sufficient information to Parliament to allow for informed debate on future health care funding."

Employment Insurance Premium Rates

During pre-budget consultations, a number of stakeholders called the Government to develop a more transparent and sustainable process for setting EI contribution rates. In response, the Government will commit to a new premium rate setting regime for 2005 and beyond.

The following rate setting principles, which are largely based on the pre-Budget recommendations of the 1999 report of the Standing Committee on Finance, will form the basis for the consultations:

- premium rates should be set transparently;
- premium rates should be set so as the basis of independent expert advice;
- expected premium revenues should correspond to expected program costs;
- premium rate setting should mitigate the impact on the business cycle; and
- premium rates should be changed only one time.

Interested parties can provide submissions to the Government of Canada until June 30, 2003. Legislation to implement the results of the consultations will be introduced in time to have the new rate setting regime in place for 2005.

To provide employers and employees with certainty about contribution rates until that time, the Government proposes to set the employee premium rate for 2004 at $1.98 by legislation. Based on the private sector economic forecasts used in the budget, it is estimated that this rate would generate premium revenues equal to projected program costs for 2004. This takes into account the proposed compassionate family care leave benefit described in Chapter 3 of *The Budget Plan*.

The EI premium rate has declined each year from $3.07 in 1994 to $2.10 in 2003. The proposed rate of $1.98 for 2004 would be the 10th consecutive reduction in EI premiums since 1994 (see Table 1). Thus, over the 10-year period from 1994 to 2004, the EI premium rate will have been reduced by over a third. These reductions in the EI premium rate will result in ongoing annual savings to employers and employees of $9.7 billion in 2004, compared to the 1994 rate.

Table 1
Evolution of Employment Insurance Premiums Since 1994

	Premium rate per $100 of insurable earnings	
Year	Employee	Employer
1994	3.07	4.30
1995	3.00	4.20
1996	2.95	4.13
1997	2.90	4.06
1998	2.70	3.78
1999	2.55	3.57
2000	2.40	3.36
2001	2.25	3.15
2002	2.20	3.08
2003	2.10	2.94
2004	1.98	2.77

Regulation and Investor Confidence

A well-functioning economy and society require regulatory policies that both safeguard the public interest and provide an environment within which individual and corporate entrepreneurship can flourish. Accountability demands that governments update regulatory frameworks to ensure that these objectives are continually met in a world of increased globalization and competition and changing investor expectations.

Investor Confidence

Investor confidence in the integrity of capital markets is critical to a well-functioning economy. The Government has been working closely with provincial governments, regulators and the private sector to bolster investor confidence and improve the efficiency and integrity of Canadian capital markets.

A number of actions have been taken, including the establishment of the Canadian Public Accountability Board, to provide greater oversight of public company auditors. A comprehensive record of actions taken to date in Canada is available on the Department of Finance Web site at http://www.fin.gc.ca/activity/pubs/kcom_e.html.

Strengthening Corporate Governance

One of the key elements of instilling investor confidence is good corporate governance within Canadian public companies. Canada must aim for the highest standards. We must ensure that our stock exchange guidelines and requirements, our securities laws and our corporate laws provide a sound framework. Our companies and executives must strive to implement best practices.

This means, for example, that a board of directors must be sufficiently independent from management to fulfill its oversight function, that the audit committee of the board must be independent to ensure a proper audit and disclosure of the company's financial position, and that management must be held accountable for its actions.

The federal government has a direct role in this area. In the coming months it will propose actions to strengthen the corporate governance standards in the Canada Business Corporations Act and financial institutions statutes. These proposals will take into account what is being done elsewhere, particularly by the provincial governments, securities commissions and stock exchanges, as well as the ongoing work of the Senate Committee on Banking, Trade and Commerce.

Strengthening Enforcement

Investor confidence also depends on strong enforcement. Effective laws, and effective enforcement of the laws governing capital markets and the behaviour of players in those markets, are essential to providing a deterrent to actions that undermine investor trust. In Canada enforcement of laws governing corporate and securities activities is a shared responsibility, involving the federal government, provincial governments and securities regulators.

This budget announces a coordinated national enforcement approach to strengthen the investigation and prosecution of the most serious corporate frauds and market illegalities. These kinds of offences are often interprovincial and international in nature, thus requiring specialized resources in order to investigate and prosecute them effectively. This budget provides up to $30 million a year for this new national enforcement effort.

To strengthen investigations, integrated teams of investigators, forensic accountants and lawyers will be established in the key financial centres across Canada. These teams will focus on the most serious cases of corporate fraud and market illegality, and will work closely with securities regulators and provincial and local police. The teams will be jointly managed by the Royal Canadian Mounted Police and partner agencies.

To enhance the ability of governments in prosecutions, the Government plans to introduce new legislation to modernize offences, permit targeted evidence-gathering, and signal the seriousness of corporate fraud offences through tailored sentencing structures. The legislation could, after further consultations have been conducted with the provinces and other key stakeholders, provide the federal government with concurrent jurisdiction with the provinces to prosecute serious criminal securities and corporate fraud offences. Resources are provided in this budget to support related prosecutions.

Securities Regulation

As announced in the Speech from the Throne, the Government is committed to working with provincial governments and market participants to ensure that Canada has the modern and efficient securities regulatory system needed to remain competitive in today's global marketplace. In October 2002 the Minister of Finance appointed Harold MacKay as his Special Representative on Canadian securities regulation, and asked him to recommend a process for improving the current system of securities regulation.

In his report Mr. MacKay noted there was consensus among stakeholders for significant and immediate improvements, and recommended that the federal government and interested provinces establish a Wise Persons' Committee. The Committee would undertake a review of securities regulation in Canada and recommend a regulatory model that best meets Canada's needs. The Government is committed to establishing such a Wise Persons' Committee shortly to provide such expert advice to federal and provincial governments.

Smart Regulation Strategy for Government

In the 2002 Speech from the Throne, the Government announced a smart regulation strategy that would promote health and sustainability, contribute to innovation and economic growth and reduce the administrative burden on business. This budget provides $4 million over two years to create an External Advisory Committee to recommend areas where the Government needs to redesign its regulatory approach to create and maintain a Canadian advantage.

Streamlining for a Potential Natural Gas Pipeline

The Government is committed to removing unnecessary barriers that limit sustainable and efficient long-term development of northern natural resources. It will provide $32 million this year and over the next two years to increase federal capacity for the conduct of environmental and regulatory assessment processes prior to the construction of a potential natural gas pipeline from the Arctic region to southern markets, and to further streamline the regulatory and environmental assessment processes upon receipt of an application to construct such a northern natural gas pipeline.

Air Travellers Security Charge

This budget follows up on the Government's commitment to conduct a review of the Air Travellers Security Charge to ensure that revenues are in line with the costs of the enhanced air security system through 2006–07, as set out in the 2001 budget. The review encompassed an assessment of revenue and expenditures, including actual amounts to date and projections for future years. The review also considered technical issues pertaining to the application of the charge, including its structure, provided that revenue would continue to cover costs and that no one would pay more than under the current structure. Toward this end, the Government invited industry stakeholders and interested parties to submit written representations, and it engaged independent consultants to undertake specialized studies to assist in considering the structure and assessing the application of the charge. The review process is summarized in Annex 3 of *The Budget Plan*.

As a result of this review, and consistent with cost recovery for its enhanced air security system and the move to full accrual accounting in this budget, the Government is reducing the amount of the charge for domestic air travel from $12 to $7 for one-way travel and from $24 to $14 for round-trip travel—a reduction of more than 40 per cent that will benefit all travellers within Canada. The adoption of full accrual accounting, which provides a more accurate measure of the cost over time of owning and operating the equipment used to screen passengers and their baggage, was a key factor in reducing the charge.

Debt Servicing and Reduction Account

The Debt Servicing and Reduction Account (DSRA) was established by statute in June 1992. Under that legislation, all goods and services tax revenues, net of applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown explicitly identified for debt reduction, must be deposited into this account. The funds in this account are earmarked to pay interest on the public debt and, ultimately, to reduce the debt.

All revenues received by the Government must be deposited in the Consolidated Revenue Fund (CRF) and any disbursements from it must be authorized by Parliament. Therefore, the specific revenues of the DSRA must be deposited in the CRF and the public debt expenditures chargeable to the account must be appropriated from it by Parliament.

Auditors General have repeatedly questioned the need for this account. They noted that "given the fundamental concept of the CRF underlying the Government's accounting system, the Account is an internal mechanism that may not be necessary." The House of Commons Standing Committee on Finance recommendations for the 2000 budget included elimination of the DSRA. All of the information relating to the DSRA is already reported in other parts of the Government's financial statements.

The Government has reviewed these recommendations and agrees that there is limited usefulness in having a separate financial statement for the information contained in the DSRA. Therefore, it will introduce legislation to terminate the DSRA. The Government will ensure that all of the information contained in the DSRA continues to be reported in other parts of the Government's financial statements.

User Charging and Cost Recovery

The Standing Committee on Finance, as well as many business sector stakeholders, have called for a more open, transparent and accountable approach to user charging and cost recovery. The President of the Treasury Board will be issuing a revised policy on external charging that sets out the principles for improved management practices relating to user charging and cost recovery.

This new Treasury Board policy will highlight the importance of consultation, service delivery and results in all user charging activities ranging from optional to regulated services. Enhanced implementation requirements, including the annual reporting of revenue and performance information directly to stakeholders and Parliament, underscore the significance of parliamentary oversight and ministerial accountability. Departments will be required to assess the performance and related cost implications associated with the revised policy and to engage their stakeholders on how best to achieve its objectives.